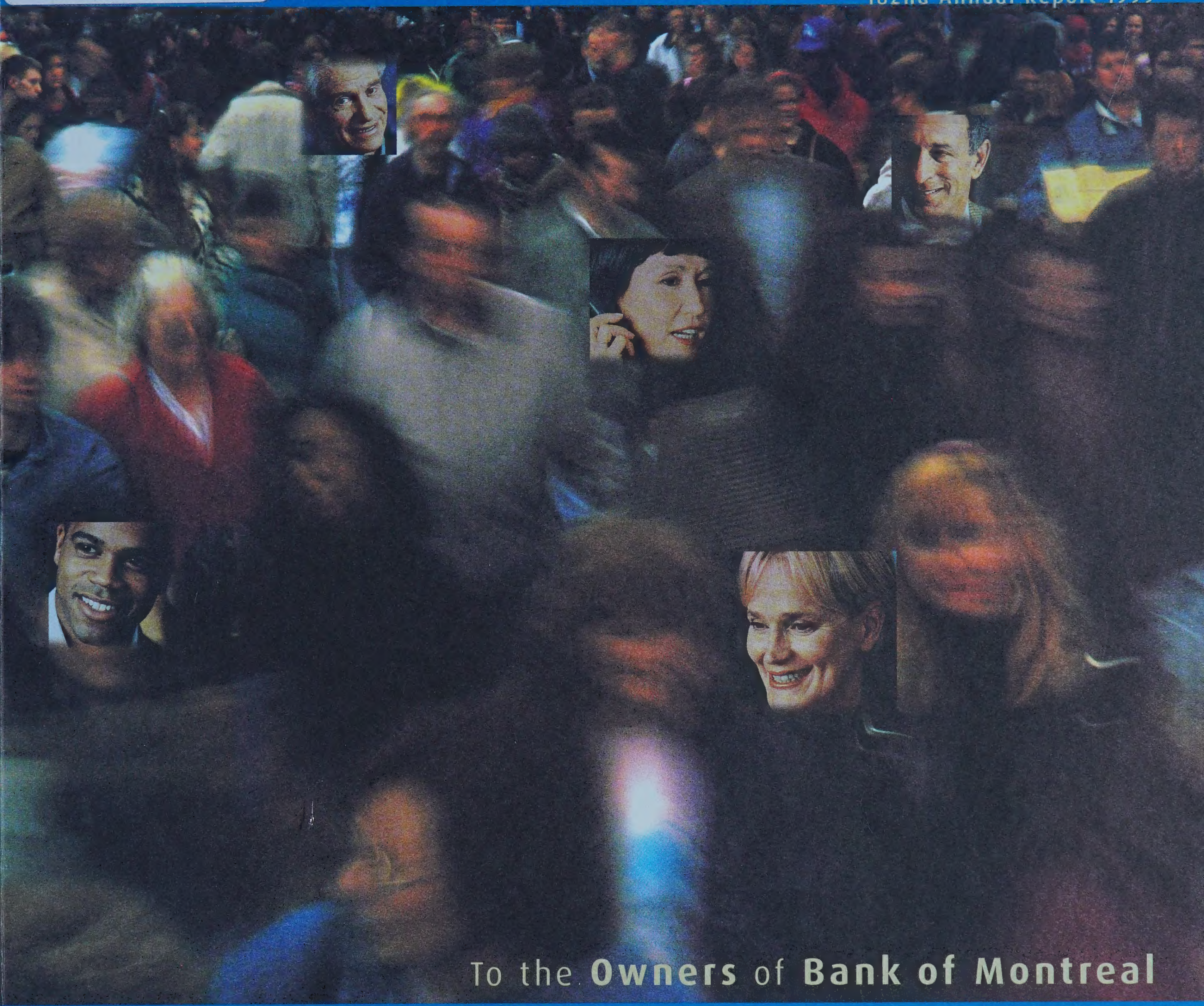
Bank of Montreal Group of Companies
182nd Annual Report 1999



To the Owners of Bank of Montreal

Bank of Montreal

Bank of Montreal Group of Companies

Bank of Montreal is a diversified financial services company offering a broad range of products and services. These are the companies that serve our clients.

Personal and Commercial Client Group

Bank of Montreal | Harris Bank | Pathways financial growth centre | mbanx Direct | Bank of Montreal Capital Corporation | cebra Intelligent Commerce | MasterCard

Private Client Group

Bank of Montreal | Private Client Services | The Trust Company of Bank of Montreal | harris investment management, inc. | Harris Bank | Jones Heward | First Canadian Funds | Nesbitt Burns | InvestorLine | investore | Harris Investors Direct

Investment Banking Group

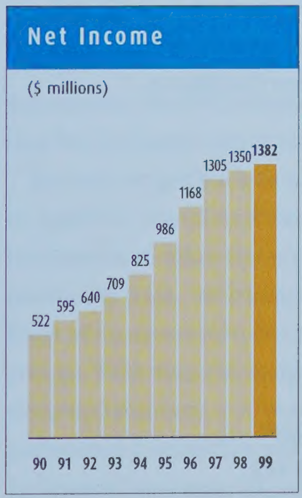
Nesbitt Burns | BMO Nesbitt Burns Equity Partners

This is a Report to the millions of people in Canada and around the world whose savings and pensions are invested in shares of Canada's first bank. You look to your ownership of Bank of Montreal for the financial security you need to help raise your children, build your homes and retire in comfort. At the Bank our goal is to give you a total return, from dividends and the growth in value of your shares, that will be in the top 25% of investments in comparable North American financial services companies.

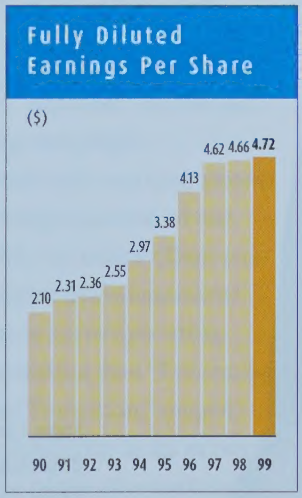
In an ever more competitive world, achieving that goal means building relationships with our customers that will set new standards of service for them, while maximizing value for our shareholders. In the following pages, you can read about our initiatives and results in 1999, and of how we plan to build on them in the year ahead.

Financial Performance: ten consecutive years of...

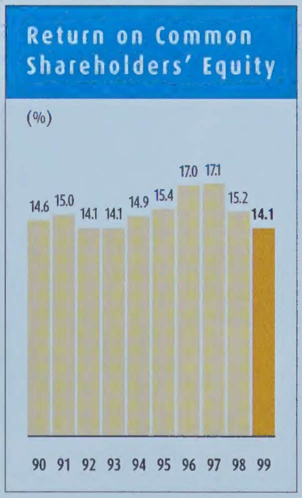
Earnings Growth



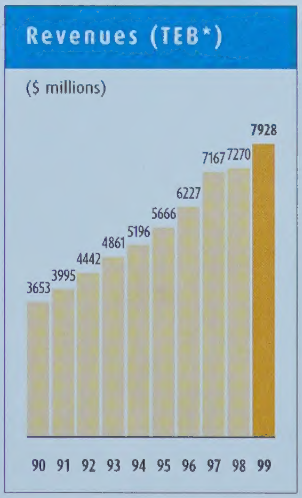
EPS Growth



ROE Greater than 14%



Revenue Growth



*Defined in the glossary on page 104

"My Bank" is Back

I have an enduring memory that I'd like to share with you. What makes this memory so enduring is that it still has the power to inspire a vision — our vision, in fact, for the 21st century.

Every day during my early teen years, riding the bus to and from high school, I would find myself fixing upon the ads for "my bank," Bank of Montreal. Variations on those ads were a constant in my life for many years, and when the day came to find myself a part-time job, guess where I filled out my first application.

Once I was part of it, "my bank" came to have an even more special meaning for me. Then as now, truth be told, I was drawn to the emotionally charged and socially useful business of helping people manage their finances.

What those "my bank" ads evoked for a young and idealistic part-time banker was a truly distinctive organization with a very close and strong relationship with its customers: a bank so helpful and respected — and indeed admired — that employees and customers loved it and viewed it as their own; a bank that was an involved and positive force in the community.

Tony Comper
Chairman and
Chief Executive Officer

Now even allowing for the selectivity of nostalgia, there is no question that over the years since then a very regrettable thing has happened to banking in Canada. As banking has evolved far beyond cashing cheques and taking deposits into the multi-channel, technology-driven provision of a complex array of financial products and services, this strong connection with the customer has eroded.

In fact, by the time the nineties began, Canada's banks, ours among them, had used up all the instinctive goodwill most customers could manage.

We have all talked a good story about improving customer relationships, and to a greater or lesser extent, we have all meant what we said — we certainly did here at Bank of Montreal. The problem has been in the execution.

There are many legitimate reasons for our lack of success in retaining customers' goodwill, but it's the result that counts, and the result is that few people look on any bank with a great deal of affection these days. And this causes considerable distress to my thousands of dedicated colleagues as they go about their daily business.

Restaking Our Claim as "My Bank"

After I was appointed Chief Executive Officer this past February, those bus ads from the sixties kept pushing back into my consciousness, reminding me of what really counts in building a bank for our time.

Throughout the year, my colleagues and I made the changes and put the strategies in place to make Bank of Montreal feel like "my bank" to our stakeholders again. Highlighting and driving home our intentions, we even adopted "my bank" as the tag line for our latest advertising campaign.

In order to get back in touch with our customers, in April we completed the reorganization of our businesses to align them with our major client segments. By June, we had grouped interdependent lines of business into our three main operating groups. This massive reorganization (see "Enterprise Accomplishments — A Year of Transition," page 4) redirected leadership accountability in 20 of our 32 lines of business, all in the name of remaking ourselves as a client-focused company.

Financial Performance

While completing our transformation into a client-focused organization in 1999, we also got on with the business of maximizing value to our millions of owners — working toward our financial performance goal of ranking among the top 25% of comparable companies in North America.

With 1999 net income of $1,382 million, earnings increased $32 million from the previous year due to business growth and improved capital market conditions, offset in part by a return to a higher, more normal level of provision for credit losses and by one-time charges. Earnings before the one-time charges were $1,495 million, an increase of $145 million or 10.8% from the prior year.

...companies that score high in shareholder value creation also score high in employee and client satisfaction

On a reported basis, fully diluted earnings per share of $4.72 were up from last year's $4.66. Return on equity was 14.1% — above 14% for the tenth consecutive year. We are the only bank in our North American peer group to have achieved this consistency. Our primary success measure, five-year Total Shareholder Return (the increase in market value per share plus dividends) reached 22%, exceeding the Toronto Stock Exchange 300 Composite Index by 8.8% over the same period. (A detailed report on our financial performance begins on page 20.)

In 1999, we also began to redeploy our people, capital, technology and other resources to priority businesses, defined by their collective potential to maximize shareholder value through both organic growth and acquisitions or alliances.

Personal and Commercial Client Group

Within our Personal and Commercial Client Group, where we generate more than two-thirds of total annual income, and where 61% of customers now use more than one banking channel, the priority is to create a seamless client experience regardless of access channel.

We are also targeting high-opportunity growth markets. In Canada we are allocating additional resources to lines of business serving small

Enterprise Accomplishments – A Year of Transition

Increased Client Focus through significant reorganization
- Established 32 lines of business (LOBs) with clear accountability for specific value-creating goals
- Ensured seamless client service by clustering the LOBs into three client segment groups

Maximizing Shareholder Value through a new approach to strategy development
- Approved new value-maximizing strategies for most LOBs with the goal of being top quartile among our peers in total shareholder return
- Established the Office of Strategic Management to ensure rigour and discipline in creating alternative strategies for the highest value creation

Selectivity and Resource Allocation
- Established a rigorous resource allocation process which moves capital, technology and other resources away from low-value businesses to businesses with the highest value potential

Sustained Value Creation with new measurement standards
- Aligned financial targets with capital market expectations with the goal of top quartile shareholder returns
- Implemented net economic profit as a key measure which reflects the risk-adjusted economics or cash contribution of each LOB

Inclusion and Communication through revised leadership committees
- Established a new senior management committee structure to increase focus and discipline on strategic leadership and performance management
- Established a more inclusive approach to strategic development and communications

People Development through leadership training
- Increased priority for leadership training through a new management training program with an emphasis on leadership skills

Compensating Performance on New Measures
- Developing senior management compensation to align with the new performance standards
- Introduced an employee share ownership plan for all employees which reinforces the shareholder value focus of our performance

and medium-sized business clients and to those devoted to consumer lending, including mortgages and consumer finance. In the United States we are continuing to develop our valuable Harris Bank retail franchise in the greater Chicago area and build our mid-market corporate banking business across the Midwest.

Everywhere in North America, we are vigorously building our e-business capabilities, with our subsidiary Cebra continuing as a market leader in Canada. Since e-business has become a fundamental element of all the operating groups, we are treating it as a high-priority emerging business from an enterprise-wide perspective.

Private Client Group

Within our Private Client Group, where the focus is also on high growth and high returns, we are improving our range of offerings as well as our ability to co-ordinate and cross-sell them to four North American market segments: the mainstream, affluent, high net worth and institutional asset management markets.

We are also exploring expansion opportunities in selected markets in Canada and the United States. These opportunities include the expansion of our retail brokerage business or private banking franchises; the acquisition or development of e-brokerage and other lower-cost channels of distribution; and the development of a full-service investment management package designed to tap into the lucrative high net worth market.

Investment Banking Group

Within our Investment Banking Group, our first priority is to maintain our leadership position as a broad-based provider of wholesale banking services in Canada.

Alongside our Canadian base we are building our North American business by developing our strong capabilities in two sectors, energy (including exploration and production, electric utilities and pipelines) and media and communications.

The other major feature of our aggressive growth plan for Investment Banking is the expansion of capability-based businesses such as credit portfolio management, securitization and merchant banking.

Our Vision

The pages that follow provide more detailed information about our progress and our plans. Suffice to say that we have the structure, the leadership and the strategies in place to recreate the "my bank" of my memories — and update and improve upon the original.

Our vision is to become the first Canadian-based bank in the new millennium to finally get it right with customers, and to become famous for that in the eyes of the public.

"My bank" will be a bank where employees are so well equipped to serve clients, and so well motivated and rewarded for their work, that each one takes full ownership of her or his role in maximizing value.

"My bank" will be a bank where customer needs are so well understood, and indeed anticipated, that they are being met even before they are articulated.

"My bank" will be a bank that even cynics and skeptics can acknowledge as a force for good in the community.

"My bank" will be a bank whose shareholders are so delighted with their returns, and so proud to be associated with such a highly regarded organization, that they too develop and display a personal sense of ownership.

Our Competitive Advantage

While this vision may appear simple at first, it is in fact a profoundly challenging undertaking. And, to the leadership team at the Bank of Montreal Group of Companies, one that overflows with opportunity.

When we truly get it right with colleagues, clients, communities and shareholders instead of just talking about it, we will have given ourselves a powerful competitive advantage.

What will differentiate us will be employees who are so finely attuned to the needs of clients, so in touch with their reality, that they will personally think of Bank of Montreal as "my bank," just the way I did back in the sixties.

What will differentiate us will be our relationships with clients: enduring relationships, empathic relationships, multi-faceted relationships.

Our Guiding Principle

There is a guiding principle that goes to the heart of our new strategic direction, and it is this: in order to get it right with clients, we must first get it right among ourselves by ensuring that we have the work environment and resources and leadership we need to capture the hearts and minds of clients, who will then reward us with more business and word-of-mouth referrals. This in turn will produce maximum value for our shareholders.

We are convinced that the only way we can deliver on our financial commitment is by adopting and pursuing this all-out people focus.

Commitment to Our Stakeholders

As we enter the new millennium, our commitment to our stakeholders is that we will create a bank that colleagues and clients alike will fondly refer to as "my bank" — the one that enables clients to enjoy today, achieve their goals for tomorrow and prepare themselves financially for the future: a bank that gets it right with its stakeholders.

Then, whatever happens in the world of financial services — no matter what conditions sweep through the marketplace or what new challenges emerge — our organization will be prepared, strategically and emotionally. Together, we will build the best financial services organization in North America.

With this final annual report of the 20th century and my first message as C.E.O., I want to serve notice to all interested parties — clients, competitors, colleagues, the Canadian public and, of course, our owners — that we will be the bank that stands apart, the "my bank" of my memories.

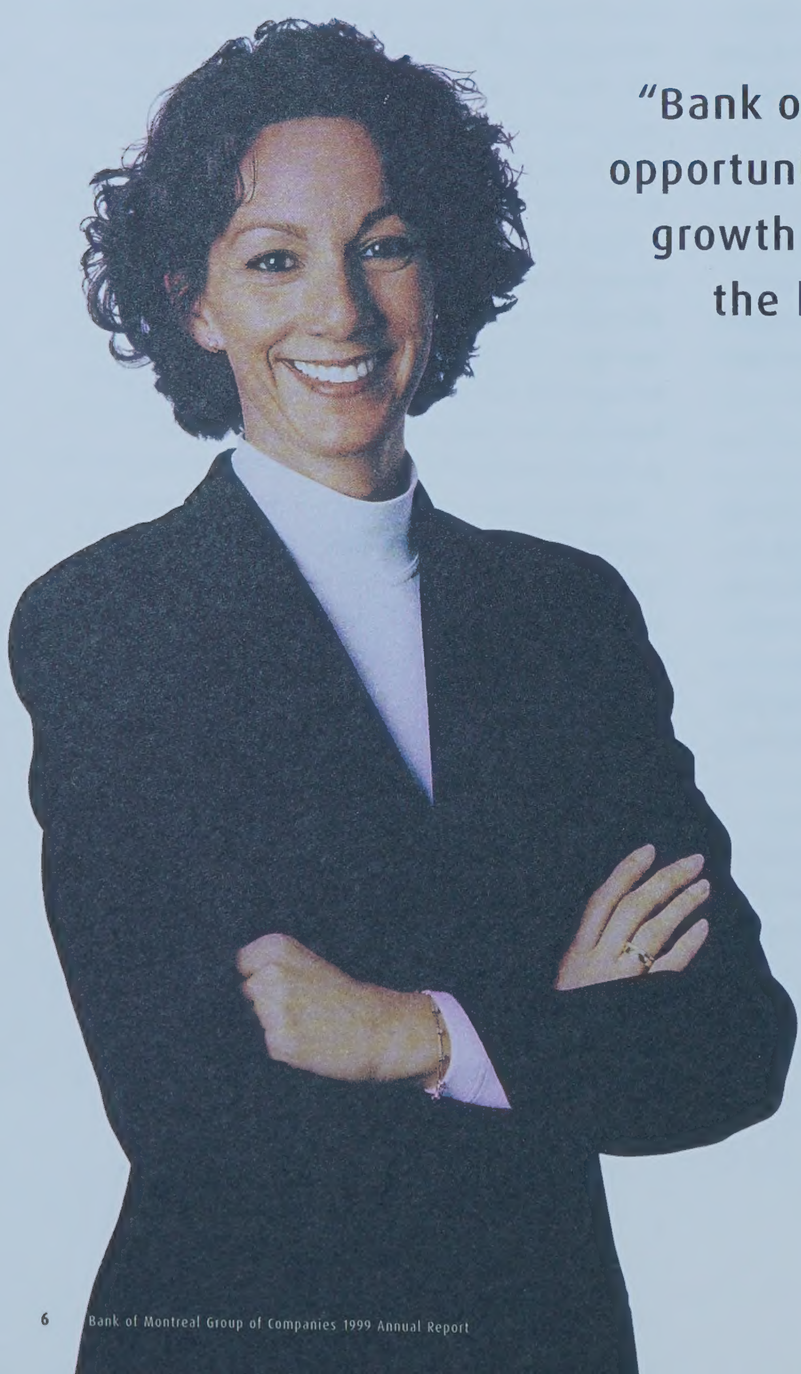
Thank you for your ongoing support.

Tony Comper

Tony Comper
Chairman and
Chief Executive Officer

Selectivity, Convenience and Innovation

At Bank of Montreal we are meeting the challenge of delivering high-quality, multi-channel banking services head-on. To meet and exceed the constantly evolving needs of our customers we have adopted a strategy based on "Selectivity and Focus, Convenience and Innovation."



"Bank of Montreal gave me the opportunity to keep pushing so that growth would happen. They put the ladder in front of me."

When Geneviève Trudel, president and owner of Santrel International, asked her financial institution to help expand her small business they said opportunity and her vision weren't reason enough. So, two years ago she turned to Bank of Montreal. The Bank's timely support and financing have helped her Montreal-based company expand its line of aloe-based first aid gels and creams and food supplements into Europe and Latin America. Trudel has seen sales grow from $700,000 in 1995 to nearly $2 million this year.

The forces of change in the financial services industry are well known and continued to escalate in 1999. Increased competition, globalization, disintermediation, a changing regulatory environment, commoditization of services and asset management shifts all required a meaningful strategic response.

To achieve the desired scale and scope in the businesses we choose, our strategy will often include the use of selective strategic alliances and highly focused joint ventures. In areas of business where we cannot achieve appropriate scale, we will exit those businesses.

Our goal is clear. We must simply be the best-in-class providers of products and services. By placing an unwavering commitment to customer service at the centre of our strategy, we will grow our core businesses while maximizing value for all Bank of Montreal shareholders.

As a first step in the implementation of this strategy we have reorganized the Bank of Montreal Group of Companies by client group. The Personal and Commercial Client Group (P&C) — accounting for more than two-thirds of the Bank's net income this year — serves more than six million Canadian households and commercial accounts and close to one million U.S. customers.

Our retail mandate is to provide our personal, small business and mid-market commercial customers with what they want, when they want it and where they need it most.

With a broad range of value propositions on offer, it's now the customers who decide how much they are prepared to pay for the banking services they need. Our commitment is to bring to this critically important and sought-after client group a consistently superior customer experience, plus the most competitive array of products and services, regardless of the access channel chosen.

An integral component of this strategy will be the leveraging of operational synergies and economies of scale across all lines of business in Canada, the United States and Mexico — the three countries where the Bank operates. Ours is a North America-wide strategy.

Competing against the Monolines

A prime example of our aggressive, customer-focused "we-want-your-business-and-we'll do-what-it-takes-to-win-it" attitude can be found in the Bank's homeowner mortgage business. We intend to be a preferred supplier of homeowner mortgages in Canada. By leveraging our existing strengths in profitable market segments and then expanding into under-served market niches, we will change the way mortgage business is conducted. For example, the recent purchase of IMC Mortgage Company, Canada Ltd. (now known as Xceed Mortgage Corporation), a company specializing in non-conforming mortgages, is a key strategic initiative that enables the Bank, uniquely among the Big Five, to offer the full spectrum of prime and sub-prime mortgage products.

Listening to our customers in order to understand their needs is another core strategy. Extensive customer research tells us that customers' concerns are focused on their largest single financial burden, and its related anxieties and restrictions on financial freedom and flexibility. It was to address these concerns that two innovative products were launched in September: the "18-year Open Term Mortgage," offering customers security and benefits found nowhere else in the Canadian mortgage market, and the "Investment Option Mortgage," providing customers with the opportunity to receive up to 3.5% of the value of their fixed rate mortgage as an investment in Bank of Montreal RRSPs.

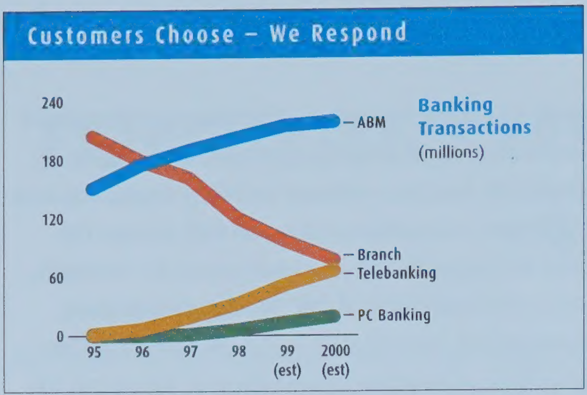
...we approve about **one new mortgage every nine minutes**

New products are just the beginning. Better customer access is the key. Today, customers can apply for a Bank of Montreal mortgage through the traditional branch network, by telephone or online. Deployment of a team of highly trained mortgage specialists, available to do business when and where our customers want, will further expand access. Using the latest in laptop communications and superior customer information technology, we'll bring mortgages right to the kitchen table.

Though highly competitive, the Bank has identified homeowner mortgages and consumer financing as high-opportunity areas of great value to our customers, which will serve to generate significant long-term shareholder value.

Customers Want Choices

Banking is about customer service. We must listen carefully to what our customers are telling us and



then do our utmost to deliver the variety of banking services they need. So, what are we hearing?

No fewer than 61% of our clients used multiple access channels in 1999. We also know that in-branch transactions have declined 51% in the past five years. Since many of our customers are pressed for time, we offer time-efficient access to our banking services either in person, at ABMs, by telephone or on the Internet. For those who want face-to-face banking, we're going where the customers are, offering longer hours and delivering customer information files to where they're needed most — at the point of purchase. Here and everywhere, our goal is to provide a responsive and superior banking experience.

In 1999, we continued the branch network transformation, closing 62 branches where customer traffic was decreasing while opening 33 new "in-store" branches at Safeway and A&P supermarkets in Western Canada and Ontario. This gave us a total of 43 in-store branches at the end of 1999.

The convenient locations and extended operating hours of in-store branches are providing a retail banking experience to which our customers are responding enthusiastically. By delivering customer files electronically to retail locations we not only shorten response times, we achieve a substantial cost reduction compared to the cost structure of a full-service stand-alone branch. Yet while the number of traditional branches has declined, the number of customer access points to Bank of Montreal is increasing, as we deliver better service at the lowest possible cost.

Providing banking services across a country as large as Canada can mean going to some pretty remote locations. This year, the Bank opened outlets in Moose Factory, Ontario and Deline, NWT, to bring these remote communities access to a wide range of financial services for the first time. Electronic information technology makes this possible.

Direct Banking

For our customers — both personal and commercial — who prefer direct banking, we launched mbanx Direct in August. We combined the strengths of Bank of Montreal's online and telebanking services with the exceptional customer service of Canada's first virtual bank. Consolidating our direct customer access channels enables the Bank to build an integrated sales and service platform to provide a better competitive pricing structure for the nearly one million Bank customers who choose to bank either by phone or on the Internet.

Small Business Growth Strategy

Small business and mid-market commercial banking are priority areas that we believe will produce superior returns for all shareholders. For Bank of Montreal this is both a renewal and an expansion of the commitment to small and medium-sized business (SME) that we made over ten years ago. During that time our SME loan book has grown 300% to over $9 billion, which represents an 18% share of the small business market.

...total commercial deposit balances increased by $1.2 billion during fiscal 1999

It is our intention to aggressively grow both our small business and mid-market commercial businesses, leveraging our expertise in retailing, agriculture, real estate, manufacturing and service industries. We have already launched customized services for insurance brokers, chartered accountants and certified general accountants. These programs have been developed in partnership with — and endorsed by — these industries' national and regional organizations. In the dynamic high-technology knowledge-based industry sector, we provide a comprehensive array of services through our ten Innovation and Technology Centres strategically located across Canada.

Our commercial clients are demanding more flexibility in service levels, and we're responding. In 1999 we provided the benefits of Everyday Banking plans to our small and medium-sized business customers, while offering for the first time a direct

banking option through either the Internet or telephone. Once again it's the customer who chooses the most appropriate value proposition. These strategies allow us to provide our clients with better service while controlling costs.

Sales Force Effectiveness

In banking there is no substitute for consistently good service. The 1998 Burke customer satisfaction survey ranked Bank of Montreal commercial account managers as best-in-class for their understanding of customer businesses, problem-solving capabilities and the provision of timely financial advice.

Throughout the Personal and Commercial Client Group, increased sales force effectiveness and improved customer service are our primary goals. To achieve this, we will continue our emphasis on the development of a continuous learning environment. We will provide our staff with enhanced product training, specialized skills development courses and the leveraging of industry-specific knowledge through the sharing of information and expertise from other Bank client groups.

The face of retail banking in the 21st century will be radically altered as the result of consumers' increasing demands for value, choice and service. The Personal and Commercial Client Group at Bank of Montreal will be driven to meet these customer demands and provide a consistent, high-quality customer experience no matter what distribution or access channel is used.

More information on Personal and Commercial Client Group is available on page 45 of the Management Analysis of Operations.

E-Business Innovation

The adoption of new technology by our customers is the fastest in history. Our objective is to use electronic technology to improve how we service our customers. Bank of Montreal has a strong reputation for industry-leading e-business initiatives, including:

- First virtual bank in North America, mbanx, launched in October 1996
- First bank in North America to introduce online mortgage adjudication
- First bank in North America to introduce and invest in wireless banking and investment services using digital cellular phones and palm computing devices in 1999 with the pilot of Veev™2
- Investment in 724 Solutions Inc., the inventor of Veev, which has subsequently acquired a substantial customer base through partnering with Bank of America and Citigroup in the United States
- Cebra Inc., the Bank's online subsidiary, which has developed MERX™*, the world's first online tendering system for government contracts and universities
- Launch of Electronic Post Office™3 in September 1999, a revolutionary electronic mail delivery system developed in a joint venture with Canada Post Corporation
- Launch of Total Trade™ in April 1999, a unique business-to-business Internet solution that allows businesses and their partners to securely receive, process and send documents and financial transactions
- Competix, Inc., provider of a sophisticated automated credit decisioning system

Looking ahead, Bank of Montreal will continue to make investments in e-business to lower costs and retain clients, leverage existing Bank-wide relationships to extend our reach, and continue to innovate and lead in providing electronic solutions to both our personal and commercial customers. We will work toward common architecture, service levels and standards across all lines of business.

FinanciaLinx

In March, Bank of Montreal and Newcourt Credit Group (now The CIT Group) formed FinanciaLinx, an alliance providing Canadian automobile dealers with an e-business leasing product. FinanciaLinx Corporation, a subsidiary of Newcourt, cuts down the time it takes a dealer to obtain lease approval by hours, using Internet technology to get an online decision in seconds. Since the formation of the alliance, FinanciaLinx has signed up more than 20% of Canadian new car dealers. In addition, it has recently been awarded the Hyundai Auto Canada leasing contract.

Harris Regional Banking

Harris Bank, one of the premier banks in the U.S. Midwest, includes two competitively advantaged personal and commercial lines of business. Harris Community Banking serves one out of every five households in the Chicagoland area. Harris is the sixth-largest Midwestern mid-market corporate bank, distributing the full range of Harris/Bank of Montreal/Nesbitt Burns/Bancomer services to our middle-market customer base. Both are businesses that create value for clients and shareholders alike.

Since 1993, Harris Community Banking has tripled its branch network. Today, from 139 locations, Harris serves the banking needs of nearly one million customers. To meet rising customer demand in 1999, Harris Bank expanded distribution of corporate and private banking services across its regional branch network. In addition, Harris began leveraging Bank of Montreal's proven small business capability, offering state-of-the-art credit evaluation and auto-decisioning systems for small business as well as risk-based pricing for consumer loans.

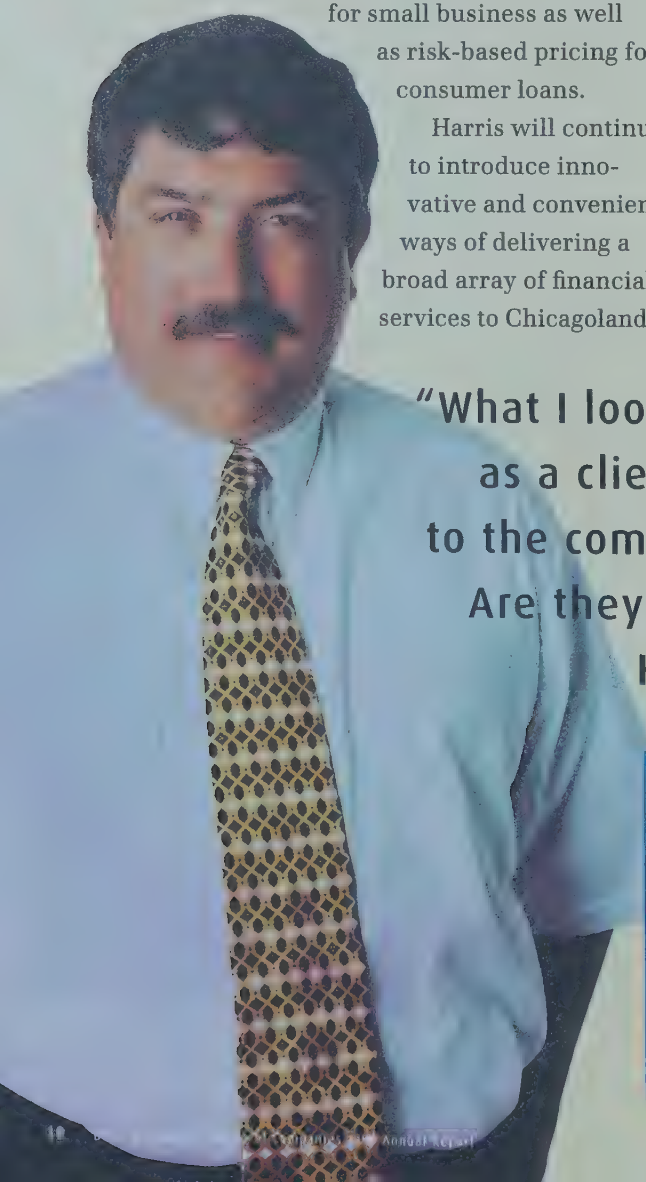
Harris will continue to introduce innovative and convenient ways of delivering a broad array of financial services to Chicagoland customers. Plans call for a U.S. pilot early in 2000 of a wireless banking service that allows customers to access banking and brokerage accounts from mobile phones or palm computing devices.

In 1999 Harris, with our partner from Mexico, Bancomer, embarked on a major customer service initiative to provide specialized financial services to the Hispanic community — the fastest-growing ethnic group in the United States. Harris has 11 fully bilingual branches and plans to open six more in 2000. Our goal is to provide convenience, ease of access and the full range of innovative banking services to the community of 1.2 million Hispanics living in the Chicagoland area.

Harris' success in developing a growing retail banking business in Chicagoland offers a valuable template for expanding our current operations in Arizona, Florida and other sunbelt markets. The opportunity for growth is substantial.

Harris Mid-Market Corporate Banking enjoyed substantial growth in new customers as it successfully pursued its relationship advisory strategy, coupled with distribution of an increasingly broad array of sophisticated financial services.

Going forward, our customers will increasingly benefit from closer linkages with Nesbitt Burns investment banking capabilities, which will provide broadened and enhanced capital markets services that will contribute to our strong business momentum.



"What I look for in a bank is how they treat me as a client and what their commitment is to the community. Are they going to be there? Are they going to support the community? Harris does both of these."

When Harris Bank opened a new branch beside Phil Fuentes' McDonald's restaurant in Cicero, Ill., it marked the beginning of a relationship that exemplifies good neighbours. Fuentes was instantly impressed with Harris' range of services and the bank's pledge to help communities in this town on the southwest border of Chicago. That was three years ago. Today, while they successfully work to expand Fuentes' business, they also find time to support the local Hispanic community and co-sponsor educational events at local schools.

Client Focused and Growth Driven

In investment banking nothing is more important than meeting and exceeding the needs and expectations of clients. The Investment Banking Group (IBG) is committed to delivering a full range of quality products and services to corporate and government issuers in North America while providing increased opportunities for investing clients around the world.

In pursuit of these goals, we have merged the strengths and capabilities of Nesbitt Burns with those of Bank of Montreal's Global Treasury and Trading, Corporate Banking and Asset Portfolio Management businesses, together with those of our Merchant Bank, to form IBG.

A Growth Strategy

In order to deliver on this commitment, we have adopted an aggressive growth strategy focused on consolidating and growing our presence in selected North American markets while expanding certain capability-based businesses in high-growth product areas.

North American Sector Focus

Operating efficiently within a continental arena and seamlessly across national borders is essential to meeting clients' expanding business needs. To better serve those needs, we are building on the substantial strengths of our franchise.

Our Canadian Strengths

With the combined strengths of Nesbitt Burns and Bank of Montreal, we are a leading force in the Canadian market, providing the highest-quality service in the areas of equity and debt underwriting, mergers and acquisitions advice and corporate banking. We have a long tradition of serving clients with the top-ranked research in the industry, and we provide institutional investors with industry-leading equity and capital markets expertise. In addition, we have strong capabilities in securitization and credit portfolio management. Our goal in Canada is to strengthen our leadership position across our full range of products and services to address the needs of a wide variety of corporate, government and institutional clients.

Building Our U.S. Business

We are continuing to develop a leading North American presence in key targeted sectors.

Through the expansion of our U.S. product range in the areas of high-yield, mergers and acquisitions, merchant banking, derivatives, foreign exchange and syndicated lending, we are providing higher-quality service for all our clients in North America. We are also strengthening the strategic alignment of Harris Bank's corporate banking activities with IBG in order to leverage Harris' knowledge and strengths with mid-market U.S. companies.

Expanding Our Capability-Based Businesses

Building from a position of strength simply makes good sense. We believe we can add significant value for many of our clients and take advantage of our own strengths by building additional capacity in the areas of credit portfolio management, securitization and merchant banking.

1999 Highlights

- Market leader in institutional equity
- Leading Canadian underwriting franchise
- Top-ranked research
- Top M&A advisory
- Leading position in securitization
- Leading credit portfolio management

Credit Portfolio Management

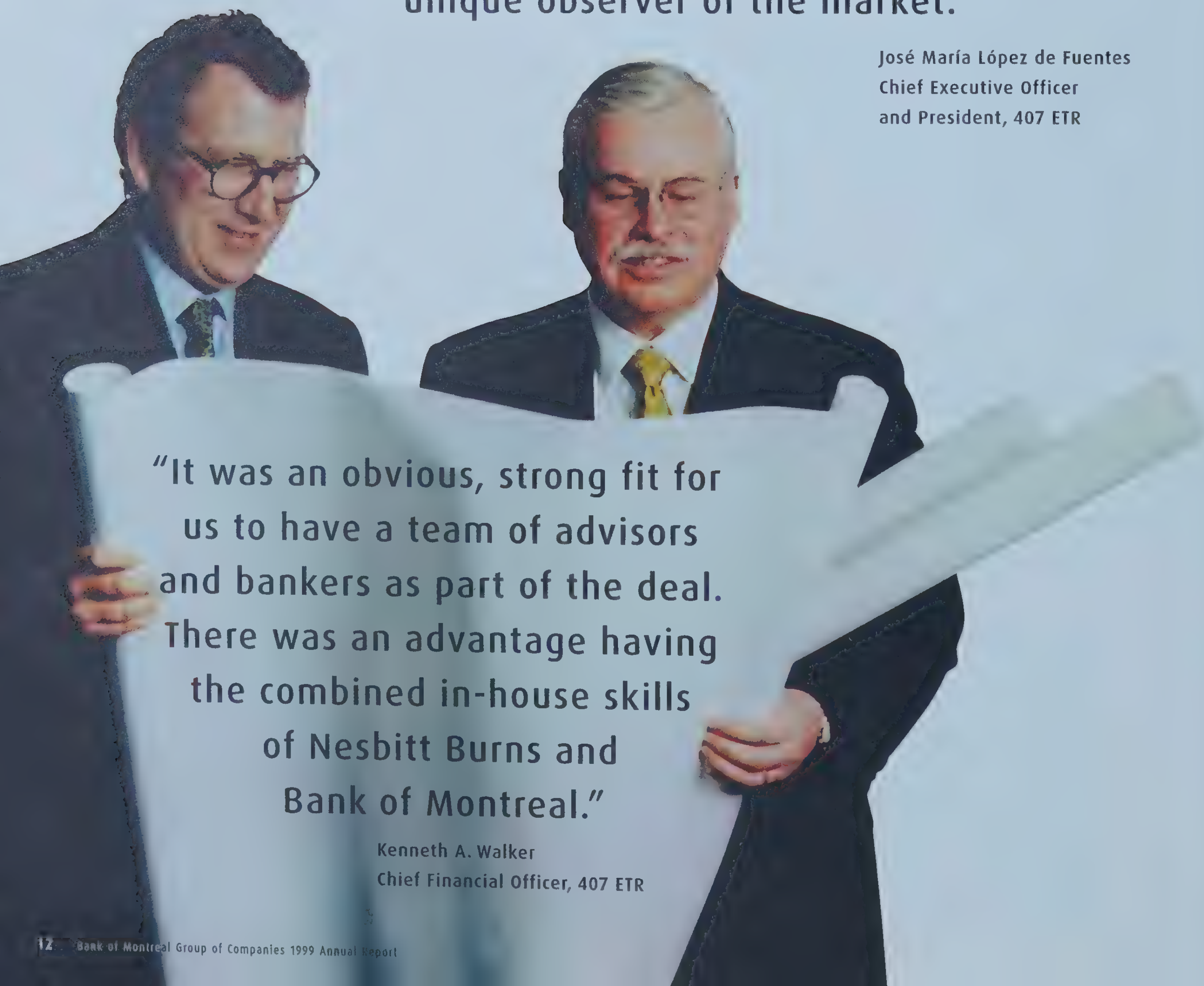
Investors are increasingly discovering the favourable risk/return characteristics available from a diversified portfolio of credit investments. We can provide superior service in the area of credit portfolio management because of the increasing liquidity of loans, the development of the credit derivatives market, the depth of our experience and our strong reputation with institutional investors. Collaterized bond obligations (CBOs) and collaterized loan obligations (CLOs) are two examples of exciting products in this rapidly growing field.

Securitization

More and more corporations are recognizing the benefits of reduced capital consumption and enhanced credit extension through the process of securitizing assets. The opportunities for us are significant. As recognized leaders in this field, we will expand our product offerings to clients in North America and Europe. As our business develops, opportunities to act as a principal using our securitization expertise are becoming available, and we are pursuing further expansion in this area.

"We broke every record in Canadian financial history and the leading role was certainly played by Nesbitt Burns. Nesbitt knows the Canadian capital market very well. They showed us that as an investment bank they are a unique observer of the market."

José María López de Fuentes
Chief Executive Officer
and President, 407 ETR



"It was an obvious, strong fit for us to have a team of advisors and bankers as part of the deal. There was an advantage having the combined in-house skills of Nesbitt Burns and Bank of Montreal."

Kenneth A. Walker
Chief Financial Officer, 407 ETR

Highway 407

Bank of Montreal and Nesbitt Burns played key roles in this transaction, including delivery of critical advisory services and the provision of:

- $2.3 billion senior bridge finance facility
- $150 million subordinated loan
- $1.1 billion initial public debt offering – the largest corporate bond offering in Canadian history
- $650 million real return bond
- $400 million additional public debt issue.

Merchant Banking

The activities of our Merchant Bank will be expanded to include a specialized North American focus in our targeted sectors. The provision of private equity will allow us to provide a full suite of services to clients when and where they need them — and earn an attractive return for our shareholders.

Delivering on Promises

Being a good business partner means delivering innovative products and services when our clients need them — which in our business is usually on very short notice. Our goal is to continually demonstrate superior industry knowledge, deliver creative financing solutions and provide timely and competitive responses as well as the best, most consistent execution possible. In 1999 we executed a number of landmark transactions that demonstrated our ability to assemble the right mix of products and expertise and deliver superior service.

Highway 407

For our clients to win the highly contested bidding for Highway 407, we had to deliver a complex and varied set of skills, expertise and capital from numerous groups across Bank of Montreal and Nesbitt Burns — in a highly co-ordinated fashion under extreme time pressures. Our ability to do so helped our client, a consortium comprised of Grupo Ferrovial of Spain, SNC-Lavalin and Caisse de dépôt et placement du Québec, successfully win the auction and complete the purchase of Highway 407 from the government of Ontario for $3.1 billion.

BCE/Ameritech

Relationships matter. When BCE Inc. went looking for an advisor to assist them in the execution of their strategic long-term growth plans, they turned to Nesbitt Burns. A long-standing relationship, the capability to provide strategic perspective and advice and Nesbitt Burns' negotiating and structuring experience helped BCE Inc. strike a partnership with Ameritech Corp., resulting in the latter acquiring 20% of Bell Canada for $5.1 billion.

Life Insurance Demutualizations

Nesbitt Burns has played a lead role in transforming the life insurance industry through demutualization. We were selected as financial advisor and lead underwriter for three of Canada's five announced demutualizations. In each of these assignments, Nesbitt Burns assembled a multi-disciplinary team of investment bankers, equity capital market specialists and equity research professionals to provide the advice and execution capabilities needed to complete the complex process of demutualization. Nesbitt Burns clients Clarica Life Insurance Co. (formerly Mutual Life of Canada) and Canada Life have successfully completed their respective $951 million and $455 million initial public offerings, and Industrial-Alliance Life Insurance Co. is scheduled to complete its initial public offering early in 2000.

Putting People and Values First Produces a Superior Client Focus

To deliver a consistent, high-quality service we must attract, develop and retain the best and brightest people in our industry. Our emphasis on people, culture and values produces an environment that is both demanding and rewarding, one that is based on succeeding through creating value for our clients. It's a powerful formula.

The Reality of a Constantly Changing Business Environment

By definition, if you're standing still in investment banking — you're moving backwards. The forces of technological change, the commoditization of products, the continuing trend to globalization and our clients' desire for the bundling of services challenge us to respond in new and innovative ways. We thrive on these challenges.

More information on Investment Banking Group is available on page 55 of the Management Analysis of Operations.

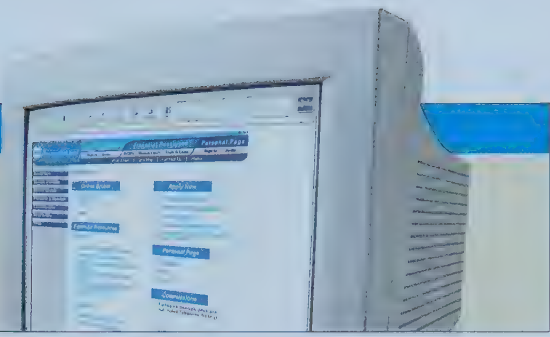
Aligning Strengths and Service

The primary objective of Bank of Montreal's Private Client Group (PCG) is the delivery of superior financial services that meet and exceed our clients' needs for asset accumulation, preservation and growth. As we work with clients to ensure their secure financial futures, we are building on the Bank's traditional strengths of trust and security. It's a process that creates long-lasting value for clients and shareholders alike.

"At one time you thought you could always look after your own money and do a good job of it. But today it's a partnership. We go in with ideas and they provide lots of expertise."

Bank of Montreal has meant family to Roger and Margaret MacArthur since 1960 when the Charlottetown, P.E.I. couple borrowed money to buy the piece of land on which they would raise their family. That $500 partnership was the first step in a lifetime of setting and meeting financial goals. That small mortgage led to RRSPs, savings bonds and investments in the stock market. Today, they play golf four times a week and winter in Florida knowing that their children receive the same level of expert advice and support they have relied on for 39 years.

InvestorLine® Web Site



A little more than a year ago, 20% of InvestorLine's transactions were electronic. Today, 80% of our trades are over the Internet or by touch-tone phone trading.

Today in banking, clients have many choices. They can transact with or without advice or face-to-face encounters and they can do it anytime, anywhere. PCG's strategy is to ensure that clients receive the most appropriate products and services through the access channels they find most convenient. We have aligned our services and access channels throughout the Bank to provide for the seamless delivery to clients of products and services ranging from traditional deposit-taking to mutual funds and securities and the wide array of wealth management products and services we offer.

Six Strategic Lines of Business

When Bank of Montreal reorganized by client group, a key first step in launching the PCG strategy was the realignment of the group's 11 businesses into six: retail investment products, direct brokerage, full-service investing, Canadian Private Banking, U.S. Private Banking and Institutional Asset Management. The Private Client Group brings together all of the Bank's wealth management capabilities to service four key North American market segments: the mainstream, affluent, high net worth and institutional asset management markets. For these diverse and demanding client groups, we provide a variety of value propositions that allow clients to choose the right balance of products, advice, convenience and pricing.

To serve our clients better we have harnessed the power of information technology and coupled it to a commitment to hiring and training our people to be the best in the business. Through a network of skilled investment professionals across North America we deliver investment, banking, insurance, retirement, tax, estate and financial planning services.

Delivering on Promises

In 1999 we continued to strengthen our retail product line while making it easier for clients to understand and manage their investments. For those concerned with frequent market fluctuations we introduced the MatchMaker® Protection Feature, which allows for 100% of a client's original investment to be protected in a MatchMaker Strategic Investment Portfolio over ten years.

In the area of mutual funds, we added the Monthly Income Fund and the International RSP Index Fund to the First Canadian® Funds offerings. The International RSP Index Fund provides Canadians with additional international exposure without infringing on the 20% RSP foreign content limit. A recent survey by DALBAR Inc. (an independent research firm) concerning customer service and communications ranked the First Canadian Funds call centre in the first quartile for client satisfaction among the 23 mutual fund company call centres surveyed during 1999.

For our retail clients, we expanded our range of investment products with the addition of the Variable Rate GIC, which pays a rate of interest linked to Bank of Montreal's prime rate, and an AIR MILES®3 GIC, which earns travel points along with an investment rate of return.

To deliver effective direct brokerage, size, speed and service matter. In 1999, the Bank acquired the Chicago-based discount-trading firm of Burke, Christensen and Lewis. When added to Harris Investors Direct, the combined business serves nearly 45,000 clients with over $4.2 billion under administration. In addition, the Bank's InvestorLine direct brokerage grew by nearly 40% as almost 200,000 clients with a total of $6 billion in assets chose it as their preferred value proposition and access channel. *Canadian Business* magazine ranked InvestorLine as a top provider of online trading services. A DALBAR Inc. survey revealed that clients ranked the statements issued to them by InvestorLine as the clearest, most easily understood of all Canadian brokerage firms.

The Private Client Division of Nesbitt Burns provides a broad range of investment planning and wealth management products and services for clients requiring the attention of a full-service investment advisory firm. Nesbitt Burns uses the latest information technology to deliver multi-channel client access. The Nesbitt Burns Gateway®1 service allows clients to view their accounts via the Internet, track model portfolios, check current and previous RRSP contributions and much more. Over 16,000 clients went online with Nesbitt Burns Gateway in

investore®

investore is the place to shop for investments. There are currently five investores (Toronto, Hamilton, London, Calgary and Richmond), plus one mobile investore, in retail locations with combined weekly exposure to over 800,000 consumers. Customers can browse the resource centre, Internet and interactive stations to shop for mutual funds, direct brokerage, full-service investing and term investments. At investore we're open retail hours when our customers want to shop. On-site investment specialists provide customers with one-on-one investment advice with no high-pressure sales in a comfortable, relaxed atmosphere.

the first nine months of its launch. Nesbitt Burns added significant value to its retirement and investment planning software, Nesbitt Burns Pathfinder®[1], with the creation of an education planner. Along with the introduction of a self-directed RESP, clients now have access to powerful tools to save for their children's future educational needs.

When it comes to providing investment research, Nesbitt Burns consistently delivers the best. Since 1980, Nesbitt Burns (or one of its predecessor firms) has been ranked number one for research in independent annual surveys.*

The Bank's Private Client Group delivers customized products and services to meet the demanding needs of affluent clients in both Canada and the United States. Through Private Client Service Centres strategically located across Canada, clients can access the full range of products and services offered by Jones Heward, The Trust Company of Bank of Montreal and private banking.

Determining the required mix of services and products quickly and efficiently is critical. Our sophisticated client-profiling process evaluates investment objectives and risk tolerance while identifying specific tax and estate planning needs. Once identified, our team of skilled professionals — including those with legal and planning expertise — deliver an enriched private banking experience.

Through Harris Bank, a broad range of innovative private banking services is being delivered to affluent clients throughout the United States. With over 100 years of experience in handling affairs for wealthy families, Harris' Private Bank has grown to almost $50 billion in assets under administration.

From its Chicago headquarters it specializes in providing an integrated offering of investment, trust and banking services to clients with sophisticated and complex financial needs. Offices have also been established in the rapidly growing sunbelt market, where we now have three offices in Florida and five in Arizona. This distinctive ability to serve Canadian "snowbird" needs in both Canada and the United States is unique among North American banks. In addition, we have established an alliance with Bancomer, our Mexican affiliate, to provide our broad array of products to their clients who wish to invest in the U.S. market.

Harris is also out in front in the rapidly growing field of electronic banking, where it became one of the first U.S. banks to provide personal trust and investment information online. With this capability coupled to our electronic banking services, the combined product offering is an industry leader.

The Way Forward

The Bank's Private Client Group will continue to focus on improving the range of our product offerings while expanding our means of distribution. As we fulfill our promise to deliver these services when and where our customers want, we plan to have 125 Investment Advisors and 250 Investment Specialists working in Bank of Montreal branches by fiscal 2000 year end to meet the needs of clients using the traditional branch as their preferred access channel.

The Private Client Group has fully aligned its business plan with the Personal and Commercial and Investment Banking Groups. Making our products and services readily available to clients throughout the Bank allows us to achieve our objective of steadily improving cost/revenue ratios. Our commitment to cross-selling will provide maximum profitability as we take products such as IPOs from our Investment Banking Group and deliver them through our extensive North American distribution network. Leveraging the synergies among the Bank's three client-focused businesses will create long-term shareholder value.

Brendan Wood International Survey: Institutional Equity Sales, Research and Trading in Canada — 1999.

More information on Private Client Group is available on page 52 of the Management Analysis of Operations.

Risk Management

Reporting directly to the Chief Executive Officer, the Risk Management Group (RMG) operates as an independent group with a comprehensive, enterprise-wide mandate to monitor all risks within the Bank. RMG comprises a number of units, including Risk Policy & Reporting, Risk Review, Market Risk, Capital at Risk, Model Development and Vetting and Operational Risk & Insurance.

RMG is responsible for recommending to the C.E.O and the Board appropriate policies, including risk tolerance levels with respect to managing major risk areas, as well as establishing standards and methodologies for defining, measuring and documenting all risks undertaken by the Bank.

RMG also provides independent and objective oversight regarding the assumption and ongoing management of risks by the lines of business to ensure that aggregate tolerances of risk assumed by the Bank are within approved levels and are contributing to the goal of maximizing shareholder value.

1999 Highlights

- Implemented an enterprise-wide Integrated Value-at-Risk (IVAR) program for the management of interest rate and foreign exchange risks in our trading portfolios.
- Developed and placed with quality insurers a comprehensive insurance program tailored to provide adequate coverage of the major insurable risks facing the Bank of Montreal Group of Companies.
- Launched a New Business and Change Management Initiatives framework designed to support the implementation of the Value Based Management program.
- Contributed to the successful achievement of the Bank's Y2K compliance and readiness goals with respect to credit, market, liquidity and operational risk management.
- Developed and integrated into the fiscal 2000 planning process the economic capital measures associated with the anticipated risk profile of each line of business.

Corporate Services

In 1999, Bank of Montreal adopted Value Based Management as the strategic framework for managing its businesses and the maximization of shareholder value as its governing objective. Corporate Services supports this goal of consistently delivering superior returns by providing professional support to the three client groups undertaking this challenge.

Comprised of Audit, Marketing & Communications, Planning, Economics, Finance, Human Resources, Legal and Real Estate, Corporate Services pursues efficiencies with a view to reducing the economic cost of the organization. It's a process that provides maximum cost transparency in order to allow line of business heads to compare the costs and quality of other available alternatives.

1999 Highlights

- The Office of Strategic Management (OSM) was established to ensure that the same rigorous level of governance applied to financial management was being applied to strategic management. This sets the criteria for all key decisions. OSM ensures all business strategies are grounded on a firm understanding of market economics and competitive positioning through rigorous, fact-based analysis.
- The Finance Group in partnership with OSM redefined the financial and strategic performance information required for managing-for-value decision-making.
- Human Resources introduced an employee share ownership plan. Additionally, senior management incentives are becoming more consistently aligned with shareholder value creation.
- Value Based Management is a process that requires our managers to have a broad range of tools to manage for value. The Bank's Institute for Learning has developed a comprehensive training curriculum.

Emfisys™

Emfisys is an integrated systems and operations group that delivers technology strategy, systems development and operational services to the Bank of Montreal Group of Companies. Encompassing Solutions & Applications, Global Information Technology, Business Process Improvement, Network & Systems, Global Dealing, Strategic Sourcing and Corporate Development, Emfisys develops critical new business systems designed to promote the creation of shareholder value and the maintenance of an enterprise-wide cost-effective operation.

1999 Highlights

- Developed a new investment planning process that strikes a balance between providing for high-performing businesses and allocating resources for continuous improvement of existing businesses.
- Launched a new commercial business platform, expanded our fraud containment software and designed a new customer value management program.
- Implemented a major customer data warehouse to manage the profitability of our customer relationships and enhance the distribution of our products and services.
- E-business delivery growth: significantly expanded our Internet offerings for our brokerage, direct banking, commercial clients and third-party networks (Merx, Electronic Post Office) and in the United States.
- Evaluated, tested and upgraded our systems to become Y2K compliant.
- Introduced a balanced evaluation process that measures customer satisfaction along with operational and employee achievement.
- Implemented a wireless banking and investment service, Veev, on mobile phones and handheld devices.

Our Workforce

At Bank of Montreal, we believe that people are the key differentiating factor in determining our success. Employees and customer satisfaction are inextricably linked. Talented people lead to satisfied and loyal clients, which increases our share of profitable business.

Our employee strategy has three components: attracting and retaining top talent, creating the conditions to foster and sustain a highly effective workplace with above-average performance, and inspiring a high level of employee commitment.

The way we are increasing the effectiveness of our people is through a program called Shifting the Performance Curve. This program is made up of ten levers that, according to research, if followed in a coordinated fashion and aligned to specific business needs, should enhance managerial capabilities and provide the Bank with a high-value workforce. Under this strategy we have focused on the following key levers in 1999:

Recruiting Those Who Best Fit the Bank's Performance Expectations

A Bank of Montreal Internet recruitment site was launched at www.bmo.com. In its first month, this human resources site had 43,329 visits.

Also this year, an enterprise-wide university recruitment program was launched which attracted responses from more than 8,000 students.

Developing High-Potential Talent and Closing the Skill Gap

As an organization dedicated to lifelong learning, the Bank provides opportunities and facilities for the acquisition of knowledge and the enhancement of employees' skills. In 1999, the Bank's Institute for Learning in Scarborough, Ontario hosted more than 10,000 participants, providing more than 28,000 training days. More than 50% of training at the IFL in 1999 focused on leadership and management development.

First-ever financial services MBA

In addition, 80% of the Bank's total training activities were undertaken at or near the workplace, delivered through a wide variety of media.

The focus in 1999 has been on the development of high-potential managers within the Bank. To further support the quality of the talent pool, Bank of Montreal partnered with Dalhousie University and the Institute of Canadian Bankers to create an MBA (Financial Services) for high-potential managers. This is the first of its kind in North America and is designed to help financial services professionals enhance their managerial and analytical abilities without taking a leave of absence from their work. This program has an enrollment of 143, and the first 33 graduates – the Class of '99 – received their degrees in Halifax, Nova Scotia in October 1999.

Developing Outstanding Managers

We know that the manager/leader is critical to both the effectiveness and the commitment of talented individuals, and so we focus much of our attention on developing outstanding managers and equipping them with the authority, tools and support they need.

This year we created and implemented the Managerial Leadership Program, an initiative designed to identify and develop outstanding managers. Introduced as a pilot program, it has already graduated approximately 200 participants. By the end of 2001, more than 4,000 of the Bank's leaders will have completed the Managerial Leadership Program.

Building Employee Commitment

Attracting talented individuals is only the first step in winning the war for talent in any business. Retaining employees through a combination of reward, environment and diversity is a subsequent and important opportunity for achieving the high-performance organization. In response to employee and shareholder needs, the Bank has created several new programs to improve our competitive edge.

By changing the proportion of fixed and variable costs in its compensation program, the Bank has strengthened the relationship between business performance and pay for all employees. Between 1995 and 1999 the percentage of total compensation accounted for by variable pay has more than doubled, from 12% to nearly 25%.

Flexible benefit programs provide an emphasis on individual choice and responsibility. While improving the management of the fixed/variable costs through an employer/employee shared cost model, employees have greater choice and control of their specific benefit needs.

Ownership and Responsibility

In support of the Bank's commitment to maximizing shareholder value, an Employee Share Ownership Plan was also introduced in 1999. This plan is based on an employer/employee contribution matching system. In the program's first five months there has already been 55% employee participation. As owners of Bank of Montreal, our employees have a vested interest in creating a talented, cost-effective and committed organization.

Equal Opportunities to Advance, Grow and Succeed

This commitment is especially expressed in our progress toward creating a diverse workforce and a working environment where every employee has the opportunity to advance, grow and succeed. We have made a public commitment to achieve gender balance in the Bank's workforce at senior levels by 2007. Since 1992, the representation of women in executive positions has increased from 9.3% to 26.7%. The representation of Aboriginal people in our workforce has increased from 0.5% to 2.2%, the highest of any Canadian bank. As well, the proportion of visible minorities in our Canadian workforce is 17.7%, exceeding the level in the external workforce. Our strategies to increase the employment of people with disabilities in our workplace continue to show results.

Our Community

In 1999, Bank of Montreal ranked as one of Canada's top corporate donors and we are proud of the direct financial contributions we make. But our commitment runs deeper than giving money. We believe in being active participants in the communities we serve.

Donations

In 1999, the Bank of Montreal Group of Companies contributed $18.5 million to support charities and not-for-profit organizations. Our commitment to the support of community-based social services through the United Way in both Canada and the United States is longstanding. Since 1994, the United Way has received $7.7 million from Bank of Montreal, $5.5 million from Nesbitt Burns, and US$3.8 million from Harris Bank.

Focus on Education

To fund our belief in the opportunities created by access to lifelong learning, Bank of Montreal has pledged more than $10 million to Canadian post-secondary institutions – including $7.7 million to fund scholarships and bursaries.

Through our Matching Gift Program, we support employees who make donations to their favourite universities and, starting this year, community colleges. With the Bank matching the contributions made by our employees in fiscal 1999, the total contribution exceeded $300,000.

Health Care

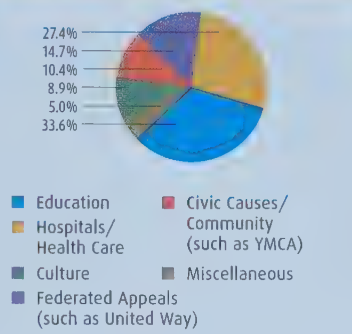
In 1999, the Bank pledged close to $2 million to hospitals and health care charities across Canada, including a $750,000 donation to establish the Bank of Montreal Laboratory for the Prevention and Treatment of Coronary and Heart Disease in Women at Jewish General Hospital in Montreal. A major donation also founded Galaxy 12, the Bank of Montreal Child and Teen Clinic at the Rouge Valley Health System in Scarborough, Ontario, providing ambulatory health care for youth.

Employee Involvement

For the first time, employee fundraising initiatives across Canada have been unified into one foundation, the Fountain of Hope. Managed by and for the 25,000 employees of Bank of Montreal in Canada, they donated more than $2 million to charities in fiscal 1999.

Bank of Montreal is committed to helping employees make a difference through volunteer activities. Each year, thousands of Bank employees, and almost all of our executives, donate their time and energy to charities, local boards and non-profit organizations. The Bank encourages these efforts through special work-schedule provisions, including flexible working hours and short-term leaves of absence.

Where the Money Goes



Volunteer Grants

The Bank also helps fund the volunteer activities of employees and pensioners through the Volunteer Grants program, now in its fourth year. In 1999, the Bank contributed over $500,000 to support more than 300 charitable and community-based activities in Canada, including local hockey, soccer and baseball teams, food banks, shelters, seniors' homes and hospital auxiliaries.

Community Programs

This year, the Bank created and distributed more than 5,000 customized financial education kits to Girl Guide units across Canada. The kits are designed to help girls between the ages of nine and 12 enhance their understanding of money through a game format.

Sponsorships

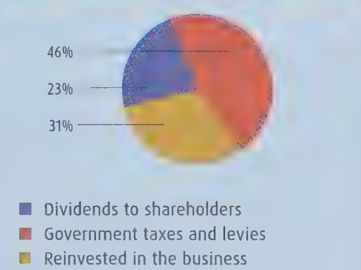
Bank of Montreal supports the community through a wide range of sponsorship programs, ranging from performing arts to sports, literary awards, business recognition awards and youth programs.

Figure skating is one of the Bank's most significant sponsorships. The Bank is the principal sponsor of the Canadian Figure Skating Championships, as well as the Sectional and Divisional competitions.

The Bank also supports the Canadian Figure Skating Association's learn-to-skate programs, which provide instruction to more than 200,000 Canadians in 1,500 clubs across Canada.

Bank of Montreal is a founding sponsor of Kids Help Phone, Canada's only national, 24-hour counselling and referral service for children and youth. The Bank sponsored the Snowsuit Fund Festival of Skating in Ottawa that raised funds to purchase and distribute snowsuits to needy children. We continued support of local events such as Spruce Meadows in Calgary, the Royal Agricultural Winter Fair in Toronto and the Calgary Stampede.

Where Profits* Go



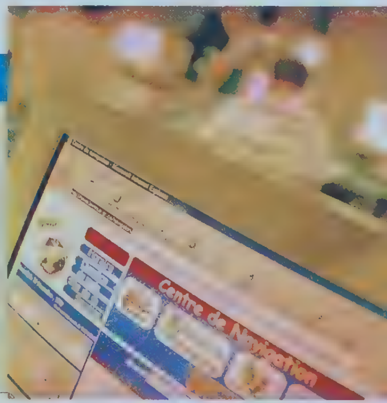
*Net income before taxes, levies and goodwill

Giving Back

Bank of Montreal serves its communities in other ways as well. More than 550,000 seniors, 380,000 students and 50,000 not-for-profit organizations receive free banking services.

L'@venue

Another community-based initiative was accomplished by partnering with L'@venue, a local not-for-profit organization in Montreal. The Bank donated 45 computers and a former branch building to be used as a community Internet centre to help young people develop employment skills. Since the Internet Café opened, L'@venue has attracted 2,680 active members and trained almost 1,000 people.



Management Analysis of Operations

Introduction

The Management Analysis of Operations (MAO) provides a discussion and analysis of our operations for the years ended October 31, 1999 and 1998. The MAO is presented in the following five sections:

- Measures and Objectives;
- Financial Performance and Condition;
- Enterprise-Wide Risk Management;
- Operating Review of Client Groups; and
- Economic Outlook.

Measures and Objectives

This section provides an overview of how we measure our financial performance and condition, along with a discussion of our objectives for 1999 and 2000.

Included within our discussion of measures and objectives is our Financial Performance and Condition at a Glance, which reviews our performance for the year. This section also provides a comparison of the year's results to both our Canadian peer group, which is the six largest chartered banks in Canada, and our North American peer group, which consists of the twenty largest banks in North America.

Index

Financial Performance and Condition

This section reviews the Bank's financial performance and condition for 1999 and 1998, and mirrors the structure of the Financial Performance and Condition at a Glance.

Enterprise-Wide Risk Management

This section provides a review of our enterprise-wide risk management function including our strategy, approach, governance and performance in this area.

Operating Review of Client Groups

This section of the MAO provides an analysis of our client group performance:

- Personal and Commercial Client Group;
- Private Client Group; and
- Investment Banking Group.

A description of the group, client profile and environmental overview is provided, as well as a review of the group's strategies and accomplishments. A detailed analysis of the 1999 and 1998 financial results is also provided.

Economic Outlook

This section reviews North American economic developments in 1999 and our economic expectations for 2000.

Measures and Objectives

To assess our financial performance and condition, we consistently monitor a set of primary measures which balance profitability and financial condition.

During the year, we have continued our implementation of the value based management (VBM) framework. As part of this implementation, our financial performance measures were reviewed with net economic profit (NEP) being added to our current measures. Our primary financial performance and condition measures are detailed in the diagram below.

Primary Financial Performance and Condition Measures – Going Forward

- Five-Year Total Shareholder Return*
- Net Economic Profit Growth
- Earnings per Share Growth
- Return on Equity
- Revenue Growth
- Expense-to-Revenue Ratio
- Provision for Credit Losses as a % of Average Loans and Acceptances
- Gross Impaired Loans & Acceptances as a % of Equity and Allowance for Credit Losses
- Liquidity Ratio
- Tier 1 Capital Ratio
- Credit Rating

*Total shareholder return (TSR) is equivalent to return on investment (ROI). To ensure consistency, TSR has replaced all references to ROI throughout the annual report.

Our financial objectives and standards have also evolved as part of the implementation of the value based management framework. The diagram illustrates these changes.

Financial Performance Objectives

1999

Vision and Purpose
To be the most trusted, respected and profitable provider of financial services wherever we operate

Governing Objective
To increase long-term shareholder value

Financial Performance and Condition Objectives

- Achieve annual earnings per share (EPS) growth of at least 10%
- Achieve return on equity (ROE) of 15–17%
- Maintain strong regulatory capital position consistent with our peers

Going Forward

Vision and Purpose
To be the best financial services company wherever we choose to compete

Governing Objective
To maximize the value of our common shares and total return to shareholders over time

This means achieving top quartile total shareholder return (TSR) relative to our peers

Financial Performance and Condition Standards

- Grow earnings per share (EPS) by at least 10% per annum
- Increase return on equity (ROE) by 1–1.5% per annum to 19–20% by 2002
- Manage each line of business to maximize its value contribution to shareholders and to grow its annual net economic profit (NEP) consistent with that valuation requirement
- Maintain strong regulatory capital position consistent with our peers

Forward-Looking Statements

From time to time we make written and verbal forward-looking statements. These may be included in the Annual Report, filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders and in other communications. These forward-looking statements include but are not limited to comments with respect to our objectives and strategies, financial condition, the results of our operations and our businesses, our outlook for the Canadian economy and our risk management discussion including the Year 2000 issue.

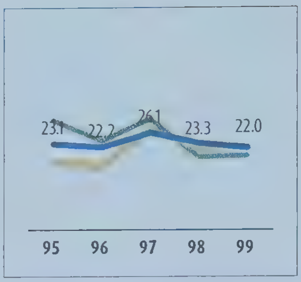
However, by their nature these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not be achieved. We caution readers of this Annual Report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by the following factors: fluctuations in interest rates and currency values; regulatory developments; the effects of competition in the geographic and business areas in which we operate, including continued pricing pressure on loan and deposit products; and changes in political and economic conditions including, among other things, inflation and technological changes. We caution that the foregoing list of important factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

Relative Financial Performance and Condition

Five-Year Total Shareholder Return (%)

- Our performance was slightly below the Canadian peer group average of 22.5%, and above the North American peer group average of 20.0%.



Shareholder Value

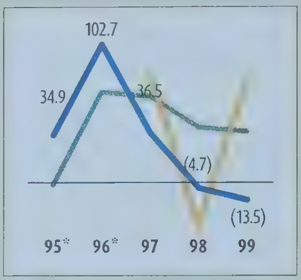
Five-year annualized total shareholder return (TSR) decreased 1.3% to 22.0%.

- Share price declined 10.2%, from $63.10 at October 31, 1998, to $56.65 at October 31, 1999.
- Dividends paid per share in 1999 increased $0.09 to $1.85.

Net Economic Profit Growth (%)

- Our net economic profit growth in 1999 was below the Canadian and North American peer group averages of 75.7% and 37.8% respectively.

*Canadian peer group growth exceeded 250% in each of 1995 and 1996.



Net Economic Profit Growth

- Net economic profit (NEP) decreased 13.5% from $464 million in 1998 to $401 million in 1999. This reflected growth in earnings, outpaced by the growth in average common shareholders' equity.
- Before one-time charges, NEP was $514 million*.

Fully Diluted Earnings Per Share Growth (%)

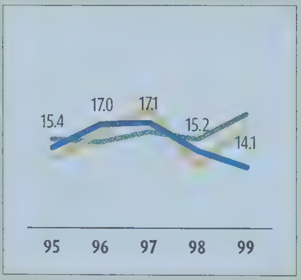
- Our EPS growth of 1.3% in 1999 was below the Canadian and North American peer group averages of 29.6% and 18.5% respectively.

Earnings per Share Growth

- Earnings per share (EPS) increased 1.3% to $4.72 from $4.66 in 1998. Before one-time charges, EPS was $5.14 and EPS growth was 10.3%*.
- Earnings of $1,382 million were 2.4% higher than 1998. This reflected business growth and improved capital market conditions, offset in part by a return to a higher, more normal level of provision for credit losses and by one-time charges*.

Return on Common Shareholders' Equity (%)

- Our ROE in 1999 was below the Canadian and North American peer group averages of 16.8% and 17.7% respectively.

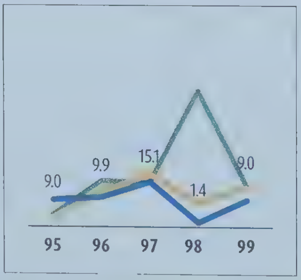


Profitability

- Return on common shareholders' equity (ROE) was 14.1% compared to 15.2% for 1998.
- Before one-time charges, ROE was 15.4%*.

Revenue Growth (%)

- Our revenue growth of 9.0% in 1999 was below the Canadian and North American peer group averages of 13.5% and 14.2% respectively.

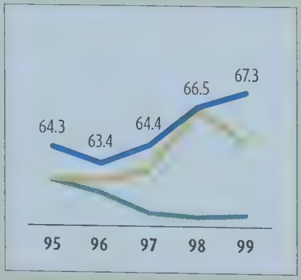


Revenue Growth

- Revenue growth in 1999 was 9.0% compared to 1.4% in 1998. Before the one-time revenue charge, revenue growth was 9.8%*.
- Revenue growth reflected a 12.6% increase in other income from higher trading revenue and fee-related services, and a 6.4% increase in net interest income primarily from volume growth.

Expense-to-Revenue Ratio (%)

- Our relative performance in 1999 was below the Canadian and North American peer group averages of 64.6% and 60.6% respectively.



Expense-to-Revenue Ratio

- The expense-to-revenue ratio in 1999 was 66.7%, compared to 65.8% in 1998. Before one-time charges, the expense-to-revenue ratio was 64.5%.
- Expense growth was driven by ongoing business operations, continued investment in strategic initiatives, higher revenue-driven compensation and the one-time expense charge*.

- Bank of Montreal
- Canadian Peer Group Average
- North American Peer Group Average

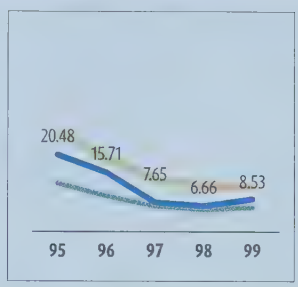
Credit Risk

- Provision for credit losses as a percentage of average loans and acceptances was 0.22%, compared to 0.09% for 1998.
- The increase was due to 1998 provisions being unusually low as a result of non-recurring benefits related to collection activity on commercial real estate loans.

Provision for Credit Losses as a % of Average Loans and Acceptances

- Our performance was above average relative to the Canadian and North American peer groups, which measured 0.43% and 0.96% respectively.

- Gross impaired loans and acceptances as a percentage of equity and allowance for credit losses was 8.53%, compared to 6.66% at the end of 1998.
- The increase was primarily due to higher levels of gross impaired loans, principally due to ongoing weakness in the energy sector. The general provision increased by $85 million to $970 million.

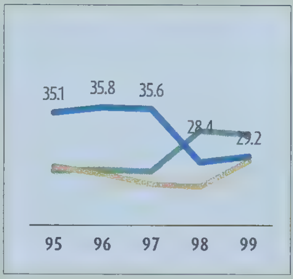


Gross Impaired Loans and Acceptances as a % of Equity and Allowance for Credit Losses

- Our performance was above average relative to the Canadian peer group at 11.56%, and below the North American peer group average of 6.32%.

Liquidity Ratio

- The liquidity ratio increased to 29.2% at October 31, 1999 from 28.4% at October 31, 1998.
- Liquid assets included $39.9 billion of pledged assets at October 31, 1999.

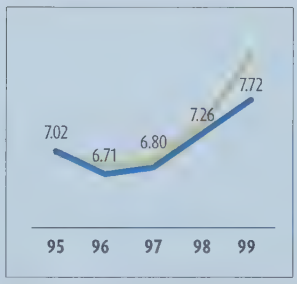


Cash and Securities-to-Total Assets (%)

- Our liquidity ratio was above average relative to the Canadian peer group average of 28.6%, and below the North American peer group average of 32.2%.

Capital Adequacy

- Tier 1 Capital Ratio was 7.72% at October 31, 1999 compared to 7.26% at October 31, 1998.
- The increase was due to retained earnings growth, and an overall reduction in risk-weighted assets through prudent balance sheet management.



Tier 1 Capital Ratio (%)

- Our Tier 1 ratio was below the Canadian peer group average of 8.33%.
- On a U.S. basis, our Tier 1 ratio was 7.42% in 1999 compared to the North American peer group average of 8.10%.

Credit Rating

- The credit rating composite remained unchanged

AA-

Credit Rating

- Our credit rating was average compared to both the Canadian and North American peer groups.

Bank of Montreal
Canadian Peer Group Average
North American Peer Group Average

Canadian Bank Peer Group Comparison

	1999			1998			Five-Year Average		
	Bank of Montreal Performance	**Rank**	**Six Bank Average***	Bank of Montreal Performance	Rank	Six Bank Average*	**Bank of Montreal Performance**	**Rank**	**Six Bank Average***
Financial Performance Measures (%) (a)									
Five-year total shareholder return (TSR)	**22.0**	**3**	**22.5**	23.3	2	21.8	**22.0**(b)	**3**	**22.5**(b)
Net economic profit (NEP) growth	**(13.5)**	**3**	**75.7**	(4.7)	3	(31.2)	**31.2**	**5**	**nm**
Fully diluted earnings per share (EPS) growth	**1.3**	**3**	**29.6**	0.9	4	(14.8)	**10.0**	**4**	**21.5**
Return on common shareholders' equity (ROE)	**14.1**	**4**	**16.8**	15.2	3	14.2	**15.8**	**3**	**16.0**
Revenue growth	**9.0**	**4**	**13.5**	1.4	6	7.9	**8.9**	**5**	**10.9**
Expense-to-revenue ratio (c)	**67.3**	**5**	**64.6**	66.5	4	66.4	**65.2**	**4**	**63.8**
Provision for credit losses as a % of average loans and acceptances	**0.22**	**2**	**0.43**	0.09	1	0.34	**0.22**	**1**	**0.38**
Financial Condition Measures (%)									
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**8.53**	**2**	**11.56**	6.66	2	12.44	**8.53**(d)	**2**	**11.56**(d)
Cash and securities-to-total assets	**29.2**	**3**	**28.6**	28.4	2	25.1	**29.2**(d)	**3**	**28.6**(d)
Tier 1 Capital Ratio	**7.72**	**5**	**8.33**	7.26	4	7.38	**7.72**(d)	**5**	**8.33**(d)
Credit rating	**AA–**	**2**	**AA–**	AA–	3	AA–	**AA–**(d)	**2**	**AA–**(d)

*The six banks used to calculate the average were: Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada and The Toronto Dominion Bank.

(a) Ratios shown are based on actual reported results adjusted to conform with Bank of Montreal accounting methods. For ranking purposes, the base period is normalized by excluding non-recurring items.
(b) Reflects five-year TSR for the period ending October 31, 1999.
(c) Amortization of goodwill and other intangibles is included in non-interest expense for all banks.
(d) Condition ratios are as at October 31, 1999.

nm – not meaningful

1999 Comparison

Our five-year total shareholder return ranking was third, which was marginally below average, compared to a second place ranking in 1998.

In the remaining six performance measures we ranked second or third in three measures and fourth or fifth in three measures. This compared to three first or third place rankings and three fourth or sixth place rankings last year. Overall our ranking was approximately mid-range in both years. Comparing our performance in 1999 to the average, we were below average in five of these six measures primarily due to non-recurring items for all banks, which had a favourable impact on the peer group averages. In addition, the return to more normal provisioning levels had a negative impact on our results.

In the condition measures we ranked second or third in three measures and fifth in one measure. In 1998 we ranked second or third in three measures and fourth in one measure. Overall our ranking was third in both years. Comparing our 1999 results to the average, we were above average with the exception of the Tier 1 Capital Ratio. While our Tier 1 Capital Ratio was below the peer group average, it was above the seven percent minimum OSFI requirement and we continue to consider our capital position to be strong.

Five-Year Average Comparison

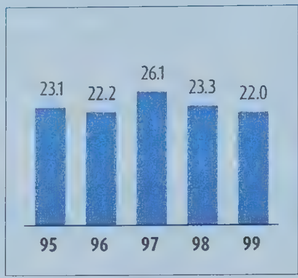
In the six performance measures, excluding five-year TSR, we ranked first in one measure, third or fourth in three measures and fifth in two measures. This compared to two first or second place rankings, one fourth place ranking and three fifth or sixth place rankings in 1998. Our five-year average performance was below average in five of these six measures.

Our rankings under the condition measures, which are as at October 31, 1999, and the five-year TSR measure are discussed above under 1999 Comparison.

Financial Performance and Condition at a Glance

Five-Year Total Shareholder Return (%)

More information can be found on page 24.

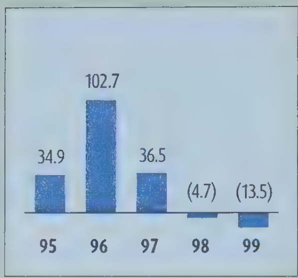


Shareholder Value

- Five-year annualized total shareholder return (TSR) decreased 1.3% to 22.0%.
- Share price declined 10.2%, from $63.10 at October 31, 1998, to $56.65 at October 31, 1999.
- Dividends paid per share in 1999 increased $0.09 to $1.85.

Net Economic Profit Growth (%)

More information can be found on page 25.



Net Economic Profit Growth

- Net economic profit (NEP) decreased 13.5% from $464 million in 1998 to $401 million in 1999. This reflected growth in earnings, outpaced by the growth in average common shareholders' equity.
- Before one-time charges, NEP was $514 million*.

Fully Diluted Earnings per Share Growth (%)

Earnings per Share Objective (at least 10%)

More information can be found on page 26.

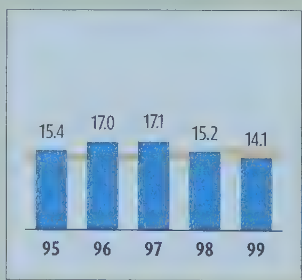
Earnings per Share Growth

- Earnings per share (EPS) increased 1.3% to $4.72 from $4.66 in 1998. Before one-time charges, EPS was $5.14 and EPS growth was 10.3%*.
- Earnings of $1,382 million were 2.4% higher than 1998. This reflected business growth and improved capital market conditions, offset in part by a return to a higher, more normal level of provision for credit losses and by one-time charges*.

Return on Common Shareholders' Equity (%)

Return on Common Shareholders' Equity Objective (1995–1997 – 14%–15%, 1998/1999 – 15%–17%)

More information can be found on page 28.

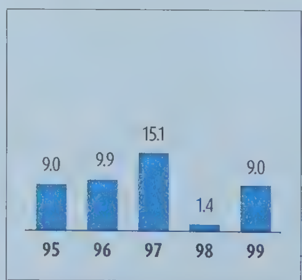


Profitability

- Return on common shareholders' equity (ROE) was 14.1% compared to 15.2% for 1998.
- Before one-time charges, ROE was 15.4%*.

Revenue Growth (%)

More information can be found on page 29.



Revenue Growth

- Revenue growth in 1999 was 9.0% compared to 1.4% in 1998. Before the one-time revenue charge, revenue growth was 9.8%*.
- Revenue growth reflected a 12.6% increase in other income from higher trading revenue and fee-related services, and a 6.4% increase in net interest income primarily from volume growth.

Expense-to-Revenue Ratio (%)

More information can be found on page 32.

Expense-to-Revenue Ratio

- The expense-to-revenue ratio in 1999 was 66.7%, compared to 65.8% in 1998. Before one-time charges, the expense-to-revenue ratio was 64.5%.
- Expense growth was driven by ongoing business operations, continued investment in strategic initiatives, higher revenue-driven compensation and the one-time expense charge*.

*Please refer to page 27 for more information on the one-time charges.

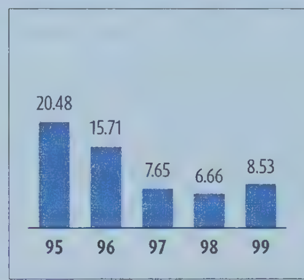
Credit Risk

- Provision for credit losses as a percentage of average loans and acceptances was 0.22%, compared to 0.09% for 1998.
- The increase was due to 1998 provisions being unusually low as a result of non-recurring benefits related to collection activity on commercial real estate loans.

Provision for Credit Losses as a % of Average Loans and Acceptances

More information can be found on page 33.

- Gross impaired loans and acceptances as a percentage of equity and allowance for credit losses was 8.53%, compared to 6.66% at the end of 1998.
- The increase was primarily due to higher levels of gross impaired loans, principally due to ongoing weakness in the energy sector. The general provision increased by $85 million to $970 million.

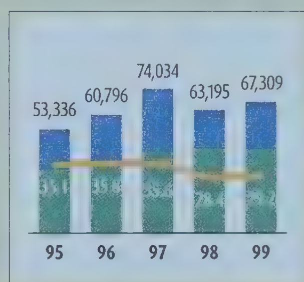


Gross Impaired Loans and Acceptances as a % of Equity and Allowance for Credit Losses

More information can be found on page 33.

Liquidity Ratio

- The liquidity ratio increased to 29.2% at October 31, 1999 from 28.4% at October 31, 1998.
- Liquid assets included $39.9 billion of pledged assets at October 31, 1999.



Cash Resources ($ millions)

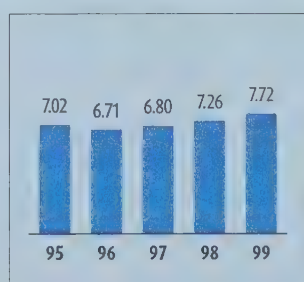
Securities ($ millions)

Cash and Securities-to-Total Assets (%)

More information can be found on page 34.

Capital Adequacy

- Tier 1 Capital Ratio was 7.72% at October 31, 1999 compared to 7.26% at October 31, 1998.
- The increase was due to retained earnings growth, and an overall reduction in risk-weighted assets through prudent balance sheet management.

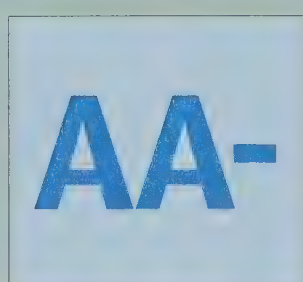


Tier 1 Capital Ratio (%)

More information can be found on page 35.

Credit Rating

- The credit rating composite remained unchanged.



Composite Credit Rating

The credit rating represents a composite of Moody's and Standard & Poor's debt ratings.

North American Peer Group Comparison

	1999			1998(a)			Five-Year Average		
	Bank of Montreal Performance	Quartile	20 Bank Average*	Bank of Montreal Performance	Quartile	20 Bank Average*	Bank of Montreal Performance	Quartile	20 Bank Average*
Financial Performance Measures (%) (b)									
Five-year TSR	**22.0**	2	**20.0**	23.3	2	19.6	**22.0**(c)	**2**	**20.0**(c)
NEP growth	**(13.5)**	**3**	**37.8**	(4.7)	3	40.9	**31.2**	**4**	**41.6**
Fully diluted EPS growth	**1.3**	**3**	**18.5**	0.9	3	(10.2)	**10.0**	**2**	**6.8**
Return on common shareholders' equity (ROE)	**14.1**	**4**	**17.7**	15.2	3	16.0	**15.8**	**3**	**16.4**
Revenue growth	**9.0**	**3**	**14.2**	1.4	4	46.2	**8.9**	**4**	**19.0**
Expense-to-revenue ratio (d)	**67.3**	**4**	**60.6**	66.5	4	60.5	**65.2**	**4**	**61.2**
Provision for credit losses as a % of average loans and acceptances	**0.22**	**1**	**0.96**	0.09	1	1.11	**0.22**	**1**	**0.87**
Financial Condition Measures (%)									
Gross impaired loans and acceptances as a % of equity and allowance for credit losses	**8.53**	**4**	**6.32**	6.66	4	5.80	**8.53**(e)	**4**	**6.32**(e)
Cash and securities-to total assets	**29.2**	**2**	**32.2**	28.4	2	32.7	**29.2**(e)	**2**	**32.2**(e)
Tier 1 Capital Ratio (f)	**7.42**	**3**	**8.10**	6.95	4	7.73	**7.42**(e)	**3**	**8.10**(e)
Credit rating	**AA-**	**2**	**AA-**	AA-	1	A+	**AA-**(e)	**2**	**AA-**(e)

*The selection of the 20 largest banks is based on the size of their 1998 common shareholders' equity: Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, The Toronto Dominion Bank, The Bank of New York Company, Inc., BankAmerica Corporation, Bank One Corporation, National City Corporation, The Chase Manhattan Corporation, Citigroup, Inc., FleetBoston Financial Corporation, J.P. Morgan & Co. Incorporated, Keycorp, U.S. Bancorp, PNC Bank Corporation, SunTrust Banks, Inc., First Union Corporation, Wachovia Corporation, and Wells Fargo & Company.

Note: Performance for the U.S. banks was based on the twelve-month period ended September 30 to approximate the Canadian bank fiscal year which ended on October 31.

(a) Reclassified to conform with 1999 presentation
(b) Ratios shown are the actual reported ratios with the exception of the Canadian peer group, the ratios of which have been restated to conform with Bank of Montreal accounting methods. Non-recurring items are excluded for ranking purposes
(c) Reflects five-year TSR for the period ending October 31, 1999.
(d) Amortization of goodwill and other intangibles is included in non-interest expense for all banks.
(e) Condition ratios are as at October 31, 1999.
(f) U.S. basis

Ranking: from 1 to 5 – Quartile 1; 6 to 10 – Quartile 2; 11 to 15 – Quartile 3; 16 to 20 – Quartile 4.

1999 Comparison

Our five-year total shareholder return ranking was second quartile and above average, consistent with 1998.

In the other six performance measures we ranked in the first quartile in one measure, the third quartile in three measures and the fourth quartile in two measures, consistent with 1998. Our performance in 1999 was below average in five of these six measures mainly due to non-recurring items for all banks, which had a favourable impact on the peer group averages. In addition, the return to more normal provisioning levels had a negative impact on our results.

In the condition measures we ranked in the second quartile in two measures, the third quartile in one measure and the fourth quartile in one measure. This compared to one first quartile, one second quartile and two fourth quartile rankings in 1998. While our 1999 results in gross impaired loans and acceptances, Tier 1 Capital Ratio and cash and securities-to-total assets were below average, we believe that our asset quality, liquidity level and capital base remain strong. Our 1999 credit rating ranking was average.

Five-Year Average Comparison

In the six performance measures, excluding five-year TSR, we ranked first or second quartile in two measures, and third or fourth quartile in four measures, compared to one first quartile ranking, and five third or fourth quartile rankings in 1998.

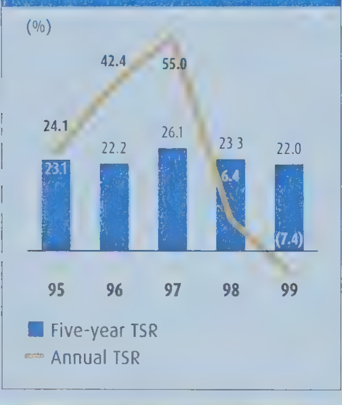
Our rankings under the condition measures, which are as at October 31, 1999, and the five-year TSR measure are discussed above under 1999 Comparison.

Shareholder Value

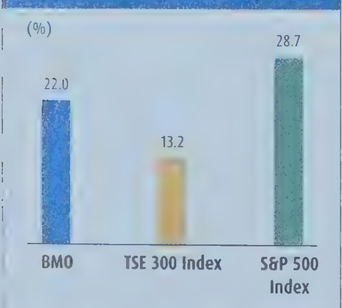
Measures:
Our primary measure of shareholder value is the **five-year total shareholder return (five-year TSR)**, which is an indicator of long-term success in increasing shareholder value.

Five-year TSR is calculated as the annualized total return earned on an investment in Bank of Montreal common shares made at the beginning of a five-year period. Total return includes the change in share price and the reinvestment of dividends received in additional Bank of Montreal common shares. Total shareholder return is equivalent to return on common shareholders' investment.

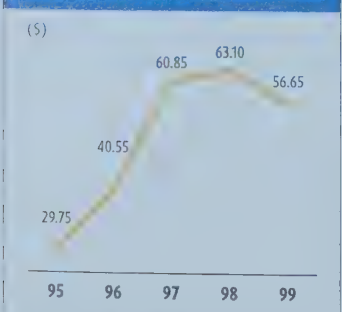
Total Shareholder Return



Five-Year Total Shareholder Return



Closing Price per Common Share



Five-Year Annualized Return of 22.0%

Total shareholder return (TSR)† is the most important of our ten primary measures of success, and it is considered to be the best external measure of shareholder value.

Over the past five years our shareholders have earned an annualized total return of 22.0% on their investment in Bank of Montreal. This return exceeded the market return, defined as the TSE 300 Composite Index® (TSE 300), for the same period by 8.8%. Our above-market return reflects a $31.53 appreciation in share price since the beginning of 1995, and an increase of $0.67 in annual dividends paid on common shares. An investment of $1,000 in Bank of Montreal common shares at the beginning of 1995 would have been valued at $2,699 at October 31, 1999, a gain of $1,699, including both the increase in share price and reinvestment of dividends.

Total Shareholder Return

For the year ended October 31	**1999**	1998	1997	1996	1995
Closing market price per common share ($)	**56.65**	63.10	60.85	40.55	29.75
Dividends paid ($ per share)	**1.85**	1.76	1.60	1.41	1.29
Dividend yield (%) (a)	**2.9**	2.9	3.9	4.7	5.1
Five-year TSR (%)	**22.0**	23.3	26.1	22.2	23.1
Annual TSR (%)	**(7.4)**	6.4	55.0	42.4	24.1

(a) Dividends paid in the year divided by the opening stock price

In 1999 our shareholders experienced a return on their investment in Bank of Montreal common shares of negative 7.4%, compared to the TSE 300 Index return of 18.7%. This decrease can be attributed to the fall in share price from $63.10 to $56.65.

1998 Compared to 1997

During 1998, shareholders earned a five-year annualized return of 23.3% on Bank of Montreal common shares, compared to the TSE 300 Index return of 10.1%. In addition, shareholders earned an annual return of 6.4%, which exceeded the negative market return of 7.8%.

® TSE 300 Composite Index is a registered trade mark of the Toronto Stock Exchange.
† Defined in the glossary on page 104.

Net Economic Profit Growth

Continued Implementation of Net Economic Profit

Net economic profit (NEP) is net income available to common shareholders, adjusted to more accurately reflect the economic or cash contribution by a line of business. The adjustments are those related to accounting for business acquisitions (i.e. valuation intangibles) and adjusting loan losses on an "expected" loss basis (if significantly different from reported losses). A charge for the cost of common equity capital is then deducted to arrive at NEP. The rate applied to capital to determine this charge is calculated as the average yield on 10-year Government of Canada Bonds, plus a 5% premium for the risk of investing in Bank of Montreal common shares. This charge is labelled as cost of equity in the table below. The benefit of this measure is that it focuses not only on cash income, but also on the equity resources used to produce that income.

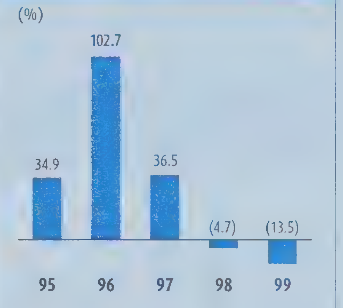
NEP in 1999 decreased 13.5% to $401 million. Before the one-time charges, described on page 27, NEP was $514 million, an increase of 11.0%. The decline reflects the lower growth in earnings, relative to the growth in average common shareholders' equity. The growth in average common shareholders' equity contributed to an increase in the Tier 1 Capital Ratio (refer to page 35).

Measure:
Net economic profit (NEP) growth is defined as percentage change in total year-over-year NEP. NEP is defined as cash net income less a charge for capital. The NEP of a line of business reflects both its earnings level and the amount of capital invested in the business. In using NEP to reflect the potential for a business to create future value through ongoing operating performance, adjustments would be made to exclude valuation intangibles and adjust for loan losses to an "expected" loss basis.

Net Economic Profit ($ millions unless otherwise stated)

For the year ended October 31	**1999**	1998	1997	1996	1995
Net income available to common shareholders	**1,265**	1,238	1,222	1,099	917
After-tax impact of non-cash goodwill and other valuation intangible expense	**67**	69	71	60	58
Cash net income	**1,332**	1,307	1,293	1,159	975
Less: Charge for capital	**931**	843	806	802	799
Net economic profit	**401**	464	487	357	176
Net economic profit growth (%)	**(13.5)**	(4.7)	36.5	102.7	34.9
Charge for capital					
Average common shareholders' equity	**8,976**	8,128	7,165	6,457	5,937
Cost of equity (%)	**10.4**	10.4	11.3	12.4	13.5
Charge for capital	**931**	843	806	802	799

Net Economic Profit Growth



1998 Compared to 1997

NEP decreased by $23 million, or negative 4.7%, in 1998 since the rate of growth in our common shareholders' equity exceeded the net income growth rate in 1998. The impact of the increase in equity was partially offset by the reduction in the cost of equity from 11.3% to 10.4% in 1998.

Client Group Reorganization

During the year we reorganized our operating groups to more closely align them with our client segments. As a result we now have three client groups which have replaced our previous five operating groups.

The **Personal and Commercial Client Group (P&C)** provides financial services to households and commercial businesses in Canada and the United States, including electronic financial services. P&C – Canada includes the businesses which were formerly part of Personal and Commercial Financial Services and Electronic Financial Services. P&C – Harris Regional Banking represents the personal and commercial financial operations of Harris Bank. P&C – Bancomer reflects our 16.6% equity investment in Grupo Financiero Bancomer (Bancomer).

Our newly formed **Private Client Group (PCG)** combines our wealth management businesses which were formerly part of Investment and Corporate Banking, Personal and Commercial Financial Services and Harris Regional Bank.

The **Investment Banking Group (IBG)** brings together businesses that provide the capital raising, advisory and investment activities on behalf of our corporate, institutional and government clients. These businesses were formerly part of Portfolio & Risk Management and Investment & Corporate Banking.

Corporate Support provides enterprise-wide services for the Bank and includes Emfisys™ (which provides overall technology support), Corporate Services and Risk Management Group. The financial results for Corporate Support include residual revenues and expenses. These represent the difference between actual amounts incurred and amounts allocated to client groups, the results of the workout unit for lesser-developed countries and Mexico, and the impact of asset securitizations.

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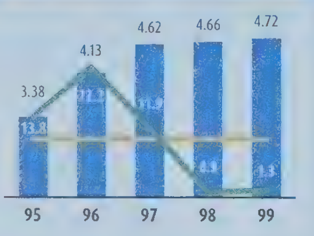
Measure:
Year-over-year percentage change in fully diluted earnings per share (EPS) is our primary measure of earnings growth. It is calculated by dividing earnings available to common shareholders for the year by the daily average number of fully diluted common shares. Fully diluted common shares represent the common shares that would have been outstanding assuming conversion at the beginning of the year, or at the date of issuance, of all securities that are convertible into or redeemable for common shares and that are considered dilutive.

Objective:
Our 1999 objective was to achieve EPS growth of at least 10%.

Fully Diluted EPS and Annual Growth



Ten Years of Growth in Earnings per Share

In 1999, our fully diluted earnings per share (EPS) was $4.72, an increase of 1.3% from $4.66 in 1998. We did not attain our financial objective of at least 10% EPS growth; however, we continue to maintain this as our objective going forward. Before the one-time charges described on page 27, EPS and EPS growth were $5.14 and 10.3% respectively.

Earnings Growth

For the year ended October 31	**1999**	1998	1997	1996	1995
Net income ($ millions)	**1,382**	1,350	1,305	1,168	986
Year-over-year growth (%)	**2.4**	3.5	11.7	18.4	19.5
Fully diluted earnings per share ($)	**4.72**	4.66	4.62	4.13	3.38
Year-over-year growth (%)	**1.3**	0.9	11.9	22.2	13.8

Note: for more information see Table 2 on page 59.

Earnings of $1,382 million were $32 million, or 2.4% higher than 1998. Earnings before the one-time charges were $1,495 million, an increase of $145 million or 10.8% from the prior year. The increase of 2.4% reflected business growth and improved capital market conditions, offset in part by a return to a higher, more normal level of provision for credit losses and by one-time charges described on page 27. Business growth was driven by increased volumes with resulting growth in both revenues and expenses.

Revenues of $7,928 million were up $658 million or 9.0%, driven primarily by volume growth, which was widespread across most lines of business including mortgage originations, commercial loans and corporate lending. In addition, volume growth occurred in credit card operations and other fee-related services, partly driven by product and distribution initiatives. The impact of volume growth was partly offset by narrower spreads in our retail and commercial businesses. We also experienced a return to more normal capital market conditions following the unusual trading losses in the fourth quarter of 1998, which together with improved performance resulted in higher revenues from our trading portfolios. Both business growth and improved market conditions contributed to higher earnings from Bancomer. For additional information on revenue growth, refer to page 29.

The provision for credit losses increased $190 million to $320 million in 1999, from $130 million in 1998, which was unusually low as a result of non-recurring benefits related to collection activity on commercial real estate loans. The provision included a specific provision of $235 million and an $85 million general provision, bringing the total general allowance to $970 million. For further discussion on credit risk, refer to page 33.

Expense growth of 10.5% was driven by ongoing business operations, continued spending on strategic initiatives such as mbanx® Direct, higher revenue-driven compensation, and the restructuring charge referred to on page 27. Refer to the expense growth discussion on page 32 for further details.

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During the year, Nesbitt Burns changed its year end as part of its integration with the Bank's institutional businesses. This resulted in the inclusion of an additional month of revenue ($89 million) and expenses ($72 million) with a positive net income impact of $8 million.

One-Time Charges

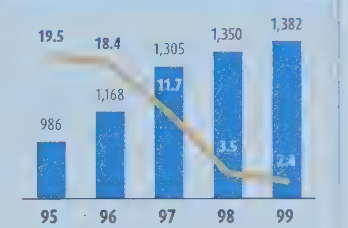
During the fourth quarter of 1999 we announced two one-time charges which amounted to $113 million after tax. The charges consisted of a restructuring charge of $81 million after tax, and a write-down for distressed investment securities of $32 million after tax.

The restructuring charge was determined as part of a rigorous analysis of the Bank's 32 lines of business, and reflects the progress made to date. The charge reflects costs associated with ceasing activities that were not contributing to the Bank's shareholder value creation goals, and realigning business activities to reposition the Bank. The charge has been included in non-interest expenses and is detailed in note 14 to the consolidated financial statements.

The write-down of the portfolio of distressed investment securities to its net realizable value results from a deterioration in the overall quality of the portfolio. The overall portfolio at that time, was valued at $49 million. The charge has been recorded as a loss within Other Income.

These two one-time charges are included within the results of Corporate Support, detailed on page 44.

Net Income and Annual Growth



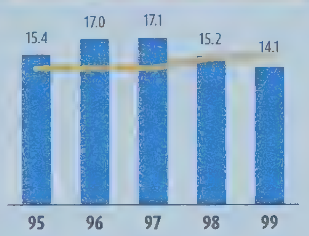
1998 Compared to 1997

Our fully diluted earnings per share increased 0.9% from $4.62 to $4.66. Net income increased 3.5% during the year, and reflected continued business volume growth and strong asset quality. This was partially offset by the effects of unusual market conditions in the fourth quarter of 1998, which contributed to lower earnings from capital market activities including trading losses, as well as a lower contribution from Bancomer. Expense growth was 4.8%, reflecting strategic development spending, the foreign exchange rate impact on U.S.-based expenses and business volume growth.

Measure:
Return on common shareholders' equity (ROE) is calculated as net income, less preferred dividends, as a percentage of average common shareholders' equity. Common shareholders' equity is comprised of common share capital and retained earnings.

Objective:
Our 1999 objective was to achieve annual ROE of 15–17%.

Return on Common Shareholders' Equity



Actual ROE (%)
Objective (14–15% in 1995 to 1997, 15–17% in 1998 and 1999)

Ten Years of ROE above 14%

Return on equity (ROE†) was 14.1%, compared to 15.2% last year. Before the one-time charges, our ROE was 15.4%.

To achieve an appropriate return in relation to the various risks associated with our business activities, we manage ROE against our objective. At 14.1%, ROE in 1999 was 0.9% below our objective, as the increase in earnings, which was negatively impacted by the one-time charges, was outpaced by increases in common shareholders' equity. Refer to page 26 for more information on earnings growth and to page 35 for details on our capital management process.

Return on Common Shareholders' Equity (%)

For the year ended October 31	**1999**	1998	1997	1996	1995
Return on common shareholders' equity	**14.1**	15.2	17.1	17.0	15.4
Objective	**15.0**	15.0	14.0	14.0	14.0

1998 Compared to 1997

In 1998 our ROE was 15.2%, a decline from 17.1% in 1997, reflecting lower earnings growth in 1998 compared to 1997 relative to an increased level of capital.

Cash Basis Reporting

Cash return on shareholders' equity and earnings per share calculated on a cash basis are described below. The after-tax effect of non-cash goodwill and other valuation intangibles is eliminated in both measures. Cash ROE decreased to 15.9% from 17.5% in 1998 and 20.0% in 1997. Cash EPS of $5.01 increased from $4.98 in 1998 and $4.97 in 1997.

Using Cash Basis Reporting Enhances Comparability of Results

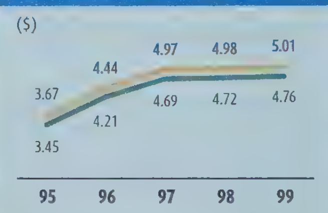
Accounting principles that underpin financial reporting are similar in Canada and the United States. One important difference that provides competitive advantage to businesses in the United States is that acquisitions can be structured to be accounted for using the pooling method. In Canada, the purchase method is predominantly applied, generally resulting in lower earnings than would be reported using the pooling method.

Specifically, the purchase method requires that assets and liabilities be reported at their fair value. In addition, intangible assets acquired and the goodwill component of the purchase price must be expensed on an annual basis over their estimated life. The pooling method does not require revaluation of assets and liabilities or expensing intangible assets or goodwill. As a result, businesses using this method generally report higher earnings and return on equity.

The Canadian Institute of Chartered Accountants has recently amended its rules to permit reporting of net income and earnings per share before the expense of goodwill. The amended rules do not, however, result in a level "playing field" for Canadian businesses with their U.S. competitors. This is due to the continued reporting in net income before goodwill of the annual expense arising from revaluations of assets and liabilities and intangible assets identified under the purchase method.

Cash measures of earnings per share and return on equity which adjust for both goodwill and intangible assets enhance the comparability of our results with those of our North American peer group.

Cash and Basic Earnings per Share



Cash EPS ($)
Basic EPS as reported ($)

Cash Return on Common Shareholders' Equity

†Defined in the glossary on page 104.

Revenue Growth

Volume Growth Drives Revenue Growth

Total revenues increased 9.0% in 1999 to $7,928 million, compared to $7,270 million in 1998. Before the one-time charge for distressed securities, described on page 27, revenue rose 9.8% to $7,983 million.

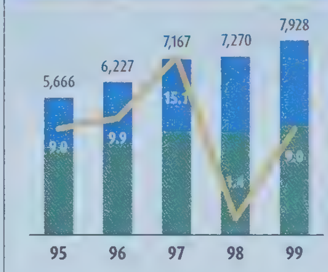
The rise of 9.0% in total revenue resulted from a $393 million (12.6%) increase in other income as well as a $265 million (6.4%) increase in net interest income. As described on page 27, revenues increased $89 million due to the inclusion of an additional month of revenues from Nesbitt Burns as a result of the change in year end.

Measure:
Revenue growth is defined as percentage change in total year-over-year revenue on a tax equivalent basis and is our primary measure of revenue growth. Total revenue consists of net interest income and other income.

Total Revenue ($ millions)

For the year ended October 31	**1999**	1998	1997	1996	1995
Net interest income (TEB)†	**4,417**	4,152	4,186	3,711	3,564
Year-over-year growth (%)	**6.4**	(0.8)	12.8	4.1	7.2
Other income	**3,511**	3,118	2,981	2,516	2,102
Year-over-year growth (%)	**12.6**	4.6	18.5	19.7	12.3
Total revenue	**7,928**	7,270	7,167	6,227	5,666
Year-over-year growth (%)	**9.0**	1.4	15.1	9.9	9.0

Revenue and Annual Growth



Other income ($ millions)
Net interest income (TEB) ($ millions)
Year-over-year growth (%)

Net Interest Income Growth of 6.4%

Net interest income is comprised of interest and dividend revenue earned on total assets, less interest expenses paid on total liabilities. It is the difference between what the Bank earns on assets such as loans and securities, and what it pays on liabilities such as deposits. Average net interest margin is the ratio of net interest income to average assets.

Change in Net Interest Income, Average Assets and Average Net Interest Margin

	Net interest income ($ millions)			Average assets ($ billions)			Average net interest margin (bps)		
For the year ended October 31	**1999**	1998	% change	**1999**	1998	% change	**1999**	1998	% change
Personal and Commercial Client Group									
Canada	**2,700**	2,666	1.3	**77,971**	72,861	7.0	**346**	366	(20)
Harris Regional Banking	**815**	761	7.1	**33,706**	29,598	13.9	**242**	257	(15)
Bancomer	**119**	29	311.1	**730**	722	1.1	**1,629**	401	nm
	3,634	3,456	5.2	**112,407**	103,181	8.9	**323**	335	(12)
Private Client Group	**176**	207	(14.7)	**3,537**	4,013	(11.9)	**498**	515	(17)
Investment Banking Group	**877**	669	31.0	**115,512**	123,264	(6.2)	**76**	54	22
Corporate Support	**(270)**	(180)	(51.5)	**(4,742)**	(3,008)	(57.6)	**572**	595	(23)
Total Bank	**4,417**	4,152	6.4	**226,714**	227,450	(0.3)	**195**	183	12

nm – not meaningful

Net interest income on a taxable equivalent basis (TEB) rose $265 million, or 6.4%, from $4,152 million to $4,417 million during 1999. Average assets were essentially unchanged compared to the prior year while net interest margin rose 0.12% to 1.95%. The flat asset growth and increased margin both reflected increased volumes in higher spread retail and commercial businesses, higher volumes and spreads in corporate lending and decreased volumes in lower spread securities.

In the Bank's retail and commercial businesses, increased net interest income was driven by volume growth largely offset by a reduction in net interest margin. The reduction in margin was primarily the result of competitive forces, a flatter yield curve in Canada and, in the United States, the higher cost of additional funding to support continued growth in new business.

Net interest income was also positively impacted by an increase of $90 million in the contribution from the Bank's investment in Bancomer due to business growth and improved market conditions in Mexico.

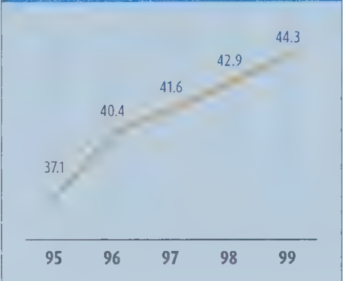
Within the Bank's institutional businesses, net interest income was up over last year, principally due to increased volumes and spreads in the corporate lending portfolio and improved spreads in securities portfolios.

†Defined in the glossary on page 104.

Effect of Securitizations
The accounting treatment of securitizations impacts both net interest income and other income as explained in more detail on page 36.

If assets had not been securitized, net interest income, other income and total revenue would have been $4,651 million, $3,313 million and $7,964 million, respectively.

Other Income as a % of Total Revenue



In addition, the majority of our portfolio of bonds of lesser-developed countries was sold during the year as favourable market conditions emerged. These sales, which are recorded in Corporate Support, contributed to net interest income growth. Lower asset levels and decreased net interest income in Corporate Support were the result of an increase in securitizations undertaken by the Bank, which are described in the sidebar.

Other Income Growth of 12.6%

Other income comprises all revenue other than net interest income, as detailed in the table below.

Other income increased $393 million to $3,511 million in 1999 and comprised 44.3% of total revenue, an increase from 42.9% in 1998. Before the one-time charge for distressed securities write-down described on page 27, other income was $3,566 million, an increase of 14.4% from 1998. The most significant contributor to growth was trading revenue, as described on page 31. The changes in other components are discussed below.

Components of Other Income ($ millions)

For the year ended October 31	1999	1998	1997	1996	1995
Deposits and payment service charges	**616**	558	508	473	451
Lending fees	**329**	290	240	194	186
Capital market and other fees	**841**	869	919	760	495
Card services fees	**205**	196	251	234	230
Investment management and custodial fees	**419**	407	299	221	240
Mutual fund revenues	**207**	199	155	87	53
Trading revenue	**295**	40	276	277	225
Securitization revenues	**296**	158	32	0	0
Investment securities gains (losses)	**(85)**	97	52	71	46
Other fees and commissions	**388**	304	249	199	176
Total	**3,511**	3,118	2,981	2,516	2,102

Deposits and payment service charges rose $58 million to $616 million. These fees represent income earned on both retail and commercial deposit accounts, and other payment services. The increase reflects continued growth in activity and growth from product initiatives, including our recently implemented initiative to more appropriately price services to our clients, based on both transaction frequency and the differentiated cost of distribution channels.

Lending fees increased $39 million to $329 million as a result of the growth in our corporate lending business. These fees are associated with the structuring and management of our credit facilities.

Capital market revenue and other fees declined $28 million to $841 million. These fees relate to investment banking and capital market transactions. Although 1999 saw significant investment banking activity, transaction levels were lower than 1998, when new issues and mergers and acquisitions activity were at unusually high levels.

Card services fees increased $9 million to $205 million as a result of the increased volume of credit and debit card transactions, and increased numbers of merchant discount devices.

Investment management and custodial fees were $12 million higher than a year ago, reflecting volume growth in estate and trust assets and accounts.

Mutual fund revenues rose $8 million due to the increased volume of assets under management in our First Canadian® Funds and Harris Insight Funds despite a shift in client preference to lower-yielding assets.

Increased securitization revenues of $138 million can be attributed to the full-year impact of our securitization of cards, mortgages and corporate loans compared to partial-year impacts in 1998. This increase in securitization revenues in other income offsets a similar reduction in net interest income, as discussed above.

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Investment securities gains/losses decreased $182 million to a loss of $85 million, reflecting the one-time charge of $55 million for distressed securities, discussed in more detail on page 27. In addition, earlier write-downs in these portfolios in the first three quarters of the year totalled $22 million. During 1998 a $35 million gain was realized on the disposition of a collateralized mortgage obligation portfolio.

Other fees and commissions increased $84 million to $388 million due most significantly to the $27 million gain on sale of the Global Custody business. In addition, other fees and commissions increased, including foreign exchange fees.

Trading Revenue

Total trading revenue includes the net interest and other income earned from on- and off-balance sheet positions, which are considered by management to be undertaken for trading purposes. This includes interest income from on-balance sheet amounts, and gains/losses from off-balance sheet interest rate, foreign exchange (including spot positions), commodity and equity contracts.

Total revenue from trading-related activities increased $279 million, from $133 million to $412 million. This growth reflects improved performance and a return to more normal capital market conditions relative to the abnormal trading conditions in the fourth quarter of 1998.

Interest and Non-Interest Trading Revenue ($ millions)

For the year ended October 31	1999	1998	1997
Capital markets	**279**	94	191
Equities	**48**	3	74
Other	**85**	36	47
Total	**412**	133	312
Reported as:			
Net interest income	**117**	93	36
Other income – trading revenue	**295**	40	276
Total	**412**	133	312

1998 Compared to 1997

During 1998, total revenue grew 1.4%, from $7,167 million to $7,270 million. This increase was due to growth in other income of 4.6% to $3,118 million and a decline in net interest income of 0.8% to $4,152 million. The increase in other income was due to higher investment management and custodial fees, other fees and commissions, deposits and payment service charges, lending fees, mutual fund revenues and securitization revenues, which were partially offset by reduced trading revenue, capital market fees and card services fees. The increased investment management fees, custodial fees and mutual fund revenues resulted from an increase in assets under management and administration. The decline in net interest income reflected lower revenues from equities and bonds of lesser-developed countries, lower cash collections on impaired loans, lower revenues from U.S. card operations, the reduced equity contribution from our investment in Bancomer and lower margins due to a flattening of the yield curve.

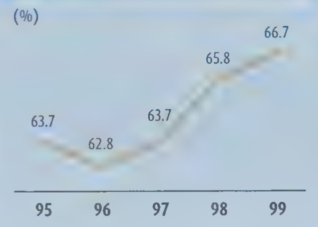
Outlook

We expect revenue growth to be lower in 2000, as 1999 benefited from a return to normal capital market conditions relative to 1998. Future revenue growth is expected to result from a combination of continued growth in volume, disciplined balance sheet management and continued pressure on spreads.

Expense-to-Revenue Ratio

Measure:
The **expense-to-revenue ratio** is our primary measure of productivity. It is calculated as non-interest expense divided by total revenues. The ratio is calculated on a taxable equivalent basis.

Expense-to-Revenue Ratio



Strategic development spending:
Strategic development spending of $380 million in 1999 was directed to the following initiatives.

- *Telebanking* – expansion of delivery channels
- *mbanx Direct & Client Contact Centres* – expansion of virtual banking unit
- *Pathways – Financial Growth Centres™* – development of educational delivery channels
- *Cebra* – development of integrated digital commerce solutions
- *Value Based Management (VBM)* – development of the VBM framework for executing our governing objective of maximizing shareholder value.

Outlook
We expect expense growth to be lower in 2000 than in 1999 because of the restructuring charge in 1999. Expense growth will be driven primarily by investment initiatives and ongoing business volume growth.

Government Taxes and Levies ($ millions)

For the year ended October 31	1999	1998
Government levies other than income taxes	**474**	513
Provision for taxes – Income Statement	**730**	804
Provision for taxes – Retained Earnings	**158**	(237)
Total government taxes and levies	**1,362**	1,080

Expense-to-Revenue Ratio of 66.7%

The expense-to-revenue ratio of 66.7% increased 0.9% from 65.8% in 1998, as expense growth of 10.5% outpaced revenue growth of 9.0%. Before the one-time charges described on page 27, the expense-to-revenue ratio was 64.5%, and expense growth was 7.6%.

Expense Growth of 10.5%

Our secondary measure of productivity is year-over-year expense growth, which was 10.5% in 1999 compared to 4.8% last year. Before the restructuring charge of $141 million ($81 million after-tax), expenses grew 7.6%. The increase in expenses was a result of growth in ongoing business operations of 3.5%, continued spending on strategic initiatives of 1.2%, higher revenue-driven compensation of 1.1% and an additional month of Nesbitt Burns operating expenses of 1.5% due to the change in their year end. Strategic initiative spending during the year focused on the initiatives detailed in the sidebar below. Including the effect of goodwill, expenses would have been $5,337 million with growth of 10.4%.

Contribution to Expense Growth (%)

For the year ended October 31	1999	1998*	1997*
Strategic development spending	**1.2**	2.1	4.9
Foreign exchange impact	**0.3**	1.5	0.2
Charge	**2.9**	(1.6)	1.3
Revenue-driven compensation	**1.1**	(0.8)	5.3
Nesbitt Burns additional month	**1.5**	–	–
Ongoing business volume growth, partially offset by productivity improvements	**3.5**	3.6	5.2
Total expense growth	**10.5**	4.8	16.7

*Restated to give effect to presentation changes.

Non-interest expense by category of cost is presented in the table below.

Salaries and employment benefits rose to $2,820 million, compared to $2,574 million in 1998. The majority of the increase reflects a return to more normal levels of variable compensation, which was exceptionally low in 1998 due to abnormal market conditions.

Premises and equipment expenses rose $151 million to $1,123 million, reflecting upgrades in computer equipment due to the approach of the year 2000.

Communication expenses increased marginally to $268 million, with other expenses decreasing from $949 million to $915 million during the year.

Non-Interest Expense ($ millions)

For the year ended October 31	1999	1998*	1997*	1996*	1995*
Salary and employment benefits	**2,820**	2,574	2,535	2,210	1,999
Premises and equipment	**1,123**	972	916	727	679
Communications	**268**	266	246	219	208
Other expenses	**915**	949	842	739	711
Amortization of intangible assets	**21**	24	28	18	15
Restructuring charge	**141**	–	–	–	–
Total non-interest expense	**5,288**	4,785	4,567	3,913	3,612

Note: for more information see Table 8 on page 64.
*Restated to give effect to presentation changes.

1998 Compared to 1997

The expense-to-revenue ratio in 1998 was 65.8%, with revenue growth of 1.4% offset by expense growth of 4.8%. Expense-to-revenue ratio growth in 1998 reflected the decline in trading revenues, which were not matched by a similar reduction in expenses.

Expense growth was driven by increased business volumes, strategic development spending and the foreign exchange impact of the lower Canadian dollar, offset by the impact of a 1997 charge and lower revenue-driven compensation.

Government Taxes and Levies

Total government taxes and levies of $1,362 million in 1999 represented 52.6% of our net income before taxes and government levies, compared to 40.5% in 1998. The provision for taxes in the Income Statement as a percentage of pre-tax income was 33.7% versus 36.3% in 1998, as shown in note 15 to the consolidated financial statements.

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Provision for Credit Losses Returns to More Normal Provisioning Levels

Provisioning Ratio

The provision for credit losses† for 1999 was $320 million, up from $130 million in 1998. The provision included a $235 million specific provision, up from $20 million in 1998, and an $85 million increase to the general allowance compared to a $110 million increase in 1998.

The provisioning ratio increased to 0.22% compared to 0.09% in 1998. The increase reflects the fact that the ratio in 1998 was unusually low as a result of non-recurring benefits related to collection activity on commercial real estate loans. The 1999 ratio is still considered low in relation to the average loss experience of a normal economic cycle.

Gross Impaired Loans Ratio

Gross impaired loans grew to $1,092 million, an increase of $268 million over the previous year, primarily due to ongoing weakness in the energy sector. While this represents a deterioration of our loan portfolio, coverage of impaired loans remains adequate, as the allowance for credit losses† exceeds gross impaired loans by $256 million.

Increased General Allowance

The total general allowance now amounts to $970 million, up from $885 million in 1998. The general allowance is maintained to cover any impairment in the loan portfolio that cannot be identified on a specific loan basis. A number of factors are considered when determining the general allowance, including statistical analysis of past performance, the level of allowance already in place and management's judgement. The general allowance would normally increase in a strong business/economic cycle and would be drawn down during a weak business/economic cycle, when specific allowances would normally increase in relation to our exposures.

1998 Compared to 1997

Our provision for credit losses in 1998 was $130 million, a reduction of $145 million from 1997. This reflected a lower addition to the general allowance and a reduction relating to the sale and securitization of credit card portfolios, offset by a high level of net specific provisions. The provisioning ratio was 0.09% compared to 0.23% in 1997. The gross impaired loans ratio declined from 7.65% to 6.66% year-over-year. This reflected the reduction in new impaired loans and strong recoveries during the year.

Approach

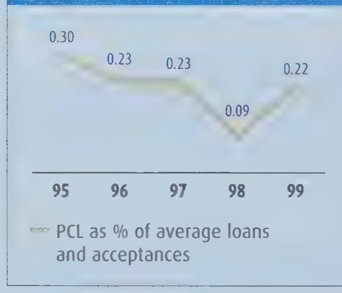
Our approach to managing credit risk is further discussed in the Risk Management section on page 38.

Outlook
We expect the provision for credit losses in 2000 to increase in line with growth in the Bank's businesses, and with the expected losses (as described on page 39) associated with the businesses.

Measures:
The following measures are used to measure credit risk performance. The first is focused on financial performance, the second on financial condition.

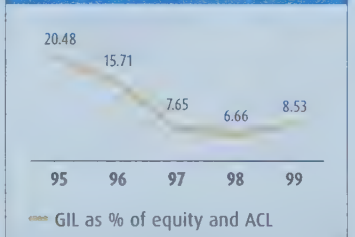
- The **provisioning ratio** is calculated by dividing the annual provision for credit losses (PCL) by the average balance of loans and acceptances, and is stated as a percentage.
- **Gross impaired loans as a percentage of equity plus the allowance for credit losses** is calculated by dividing the volume of impaired loans by the capital and reserves available to absorb loan losses.

Provisioning Ratio



Note: For more information see Table 13 on page 66.

Gross Impaired Loans Ratio



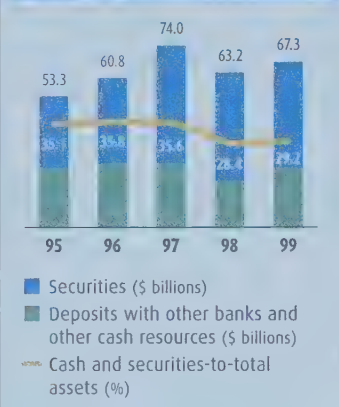
Note: For more information see Table 15 on page 68.

†Defined in the glossary on page 104.

Liquidity Ratio

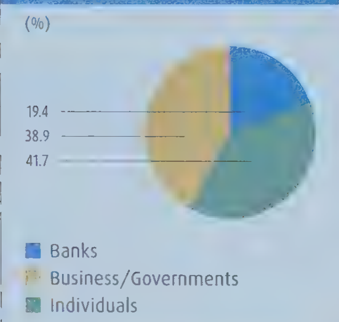
Measure:
The **liquidity ratio** is our primary measure of liquidity coverage and represents the ratio of deposits with other banks, other cash resources and securities (liquid assets) to total assets. It allows us to ensure we have sufficient liquid resources to meet client requirements and our own operating needs.

Liquidity Ratio

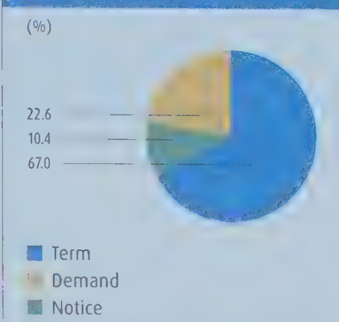


Note: For more information see Table 17 on page 70.

Deposits by Client



Deposits by Type



Liquidity Ratio of 29.2%

Our policy is to maintain sufficient funds and funding capacity to meet our net cash outflow commitments, such that in the event of a liquidity crisis our commitments would be covered, without having to raise funds at unreasonable prices or sell assets on a forced basis. This is achieved by maintaining adequate liquid assets and ensuring the stability of our deposit base through diversification.

Our liquidity ratio at October 31, 1999 was 29.2% compared to 28.4% at October 31, 1998. The increase was primarily the result of growth in U.S. money market placements, with total liquid assets at October 31, 1999 being $67.3 billion.

Our secondary measure of liquidity is core deposits as a percentage of total deposits (core deposits are defined for this purpose as retail deposits). Core deposits as a percentage of total deposits decreased slightly from 41.4% to 38.9%, reflecting greater growth in overall assets than growth in core deposits.

We maintain broad diversification of deposits by client and type as shown in the charts below.

In the ordinary course of business, to support our trading activities and our participation in clearing and payment systems both domestically and abroad, a portion of liquid assets is pledged as collateral. At October 31, 1999, $39.9 billion of assets and securities had been pledged. This amount is down $1.6 billion from last year, and is included in our liquidity analysis.

Further discussion of liquidity risk management is provided on page 41.

1998 Compared to 1997

At October 31, 1998, our liquidity ratio was 28.4%, down from 35.6% the preceding year. This decrease resulted from continued growth of Canadian dollar loans such as residential mortgages, and the reduction of our liquid assets by $10.8 billion, or 14.6%, as part of our portfolio management.

Outlook
We expect the liquidity ratio in 2000 to remain in the same range as in 1999.

Capital Adequacy

Improved Capital Ratios

Capital is defined as shareholders' equity and subordinated debt. Our Tier 1 Capital Ratio increased to 7.72% in 1999 from 7.26% in 1998. This was made possible by prudent balance sheet management, including the implementation of integrated market risk models, which resulted in risk-weighted assets (RWA)† declining by approximately 2.0% while Tier 1 capital grew by 4.2%, largely as a result of retained earnings growth offset by dividends.

We also use secondary measures for monitoring regulatory capital requirements, including the Total Capital Ratio and the assets-to-capital multiple, both defined by OSFI. OSFI requires banks to meet minimum capital requirements of 4% and 8% in terms of Tier 1 and Total Capital Ratios respectively, and also requires banks not to exceed an assets-to-capital multiple of 20.

Our Total Capital Ratio, the ratio of total capital to RWA, was 10.77% at October 31, 1999. This increased from 10.38% at the end of fiscal 1998, primarily due to the strengthening of our Tier 1 Capital Ratio.

The assets-to-capital multiple is the multiple of adjusted assets (on-balance sheet assets including guarantees and letters of credit) to total capital. Our assets-to-capital multiple at October 31, 1999 was 16.3, up from 16.0 at October 31, 1998.

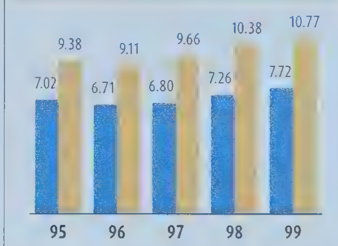
1998 Compared to 1997

In 1998, our Tier 1 Capital Ratio increased to 7.26% from 6.80% in 1997. This improvement was driven by an increase in Tier 1 capital of 20.0% offset by the impact of a 12.4% increase in RWA. Tier 1 capital increased through retained earnings growth and the issuance of $650 million in preferred shares. RWA growth was moderated by various balance sheet management initiatives including the securitization of corporate loans, mortgages and credit cards.

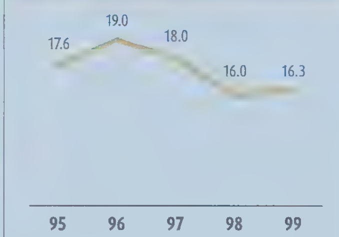
Outlook
We expect the Tier 1 Capital Ratio to be greater than 7.75% in 2000.

Measure:
The **Tier 1 Capital Ratio** is our primary measure of capital adequacy. The Office of the Superintendent of Financial Institutions Canada (OSFI) defines this measure as Tier 1 capital divided by risk-weighted assets.

Regulatory Capital Ratios†



Assets-to-Capital Multiple



Capital Adequacy ($ millions except as noted)

As at October 31	**1999**	1998	1997	1996	1995
Canadian Basis					
Tier 1					
Common shareholders' equity	**9,313**	8,650	7,629	6,729	6,174
Non-cumulative preferred shares	**1,668**	1,958	1,274	857	858
Non-controlling interest in subsidiaries	**27**	40	80	101	121
Goodwill	**(430)**	(494)	(521)	(557)	(411)
Tier 1 capital	**10,578**	10,154	8,462	7,130	6,742
Tier 2					
Cumulative preferred shares	**0**	0	0	0	0
Subordinated debt	**4,522**	4,670	3,582	3,179	2,268
General allowance for credit losses (a)	**970**	873	775	0	0
Tier 2 capital	**5,492**	5,543	4,357	3,179	2,268
Less: First loss protection	**315**	323	113	na	na
Investment in non-consolidated subsidiaries/ substantial investments	**1,010**	858	697	625	0
Total capital	**14,745**	14,516	12,009	9,684	9,010
Risk-weighted assets	**136,964**	139,782	124,348	106,267	96,075
Risk-weighted capital ratios (%)					
Tier 1	**7.72**	7.26	6.80	6.71	7.02
Total*	**10.77**	10.38	9.66	9.11	9.38
U.S. basis Tier 1	**7.42**	6.95	6.35	6.26	6.82
U.S. basis total*	**11.34**	10.86	9.92	9.81	9.97
Assets-to-capital multiple	**16.3**	16.0	18.0	19.0	17.6
Equity to assets (%)	**4.9**	5.0	4.4	4.6	4.7

*The October 31, 1996 Total Capital Ratio and Tier 2 capital reflect the inclusion of the $300 million in subordinated debentures issued November 1, 1996. Excluding this issue, the Total Capital Ratio would be 8.83%, and 9.53% on a U.S. basis.

(a) General allowance included with the approval of OSFI beginning in 1997. OSFI approved the inclusion of the lesser of the balance of our general allowance for credit losses or 0.75% of risk-weighted assets (1998 and 1997: 0.625%).

na – Not applicable

†Defined in the glossary on page 104.

Approach

We manage capital through prudent balance sheet management, while balancing the needs and requirements of our shareholders, regulators and rating agencies. We take a disciplined approach toward balance sheet management, which includes monitoring leveraged and RWA and undertaking securitizations as discussed below. As a result, capital management is closely aligned with our risk management strategy.

Management of our capital takes into account economic, regulatory and legal entity requirements. Capital is managed at two levels — the consolidated Bank level and the line of business level.

At the consolidated Bank level, total capital determines the amount of risk that we can assume, subject to meeting regulatory and legal capital requirements. For internal management purposes our focus is on economic equity. At the line of business level, equity is managed on an economic basis, whereby it is allocated to support the various risks associated with the activities of each line of business.

Securitization

What is securitization?
Securitizing assets involves selling financial assets to trusts or special-purpose vehicles that are independent from us.

Why do we securitize?
Securitization serves as an effective balance sheet management tool by reducing or eliminating the need to hold capital against risk-weighted assets, enabling capital to be reduced or redeployed to alternative revenue-generating purposes. It also serves as an effective liquidity management tool by diversifying funding sources.

The nature of securitization changes our role from that of lender to loan servicer, thereby removing the loans from our balance sheet. Securitization also affects the manner in which our revenue and provision for credit losses are reported in the Income Statement. Securitization revenue, which is in the form of cash flows received from the trust, is recorded in other income, replacing the net interest income, fee and commission revenue, and credit losses on loans that would normally be reflected for the assets prior to securitization.

Credit losses are a component of the cash flows on the securitized portfolio, so our revenues may be lower depending on the performance of the securitized receivables. However, our exposure to credit losses on the securitized assets is contractually limited to the cash flows on that portfolio, and any first loss protection we provide.

What have we securitized?
In 1999 we securitized $0.5 billion of NHA mortgage loans in addition to the $5.0 billion of uninsured mortgage loans, $145 million of insured mortgage loans, $4.1 billion of commercial loans and $0.5 billion of credit card receivables we securitized in 1998. We also securitized $2.0 billion of credit card receivables in 1997. The impact of these securitizations on results is shown below.

How does this affect us?

($ millions except as noted) As at October 31	**1999**	1998	1997
Reduced net interest revenue	**(234)**	(128)	(17)
Increased other income	**198**	68	16
Reduced provision for credit losses	**42**	50	–
Impact on net income before tax	**6**	(10)	(1)
Improved Tier 1 Capital Ratio (basis points†)	**–**	35	10

For additional information, refer to note 6 to the consolidated financial statements.

†Defined in the glossary on page 104.

Enterprise-Wide Risk Management

Our objective is to earn competitive returns from our various business activities at acceptable risk levels. Risk management involves overseeing the risks associated with all our business activities in the environment in which we operate, ensuring that the risks taken are within prudent boundaries, and that the prices charged for products and services reflect these risks. Risk is calculated in terms of impact on income and asset values. We assess the potential effect on our business of changes in political, economic, market and operating conditions, and the creditworthiness of our clients, using four risk categories which are described in the risk spectrum below.

In the management of these risks we rely on the competence, experience and dedication of our professional staff operating with appropriate segregation of duties and utilizing sophisticated, quantitatively based analytical tools and state-of-the-art technology. This combination of prudence, analytical skills and technology, together with adherence to our operating procedures, is reflected in the strength and quality of our earnings over time.

Strategy:

- Identify, price and manage risk to maintain an appropriate risk-return relationship;
- Use comprehensive and integrated risk measurement and reporting processes to ensure that risk is managed consistently and effectively on an enterprise-wide basis; and
- Employ proven analytical techniques, supported by business experience and sound judgement, to understand all dimensions of the risks taken.

Approach:

- Promote a strong and proactive culture, giving a high value to disciplined and effective risk management;
- Communicate clear and concise risk management standards through policies, directives, operating procedures and training, with adherence to the policies and procedures verified by an objective internal audit process;
- Employ professional and dedicated personnel with a high degree of risk management expertise and experience;
- Adhere to stringent risk management techniques for the evaluation and acceptance of risk, and the segregation of responsibilities; and
- Utilize established, leading-edge analytical tools and technologies to properly capture and price risk, monitor positions and determine the potential impact of management initiatives and strategies.

Governance:

- Authority for all risk-taking activities rests with the Board of Directors and its Risk Review Committee, which approves risk management policies, delegates limits and reviews management's assessment of risk in the major risk-taking activities.
- The Risk Review Committee's approval and oversight functions are supported by the management structure, which includes the Risk Management Committee (and its sub-committees dealing specifically with asset/liability, liquidity and market risk management), the Counterparty Risk Council and an independent Risk Management Group.
- Risk Management Group reports directly to the Chief Executive Officer, and also provides periodic reports to the Risk Review Committee of the Board of Directors. The group brings together the functions of policy development, standard/guideline-setting, risk measurement and risk reporting, using a range of methodologies to aggregate risks of different types across the enterprise.
- While each line of business is accountable for the risks it undertakes, including monitoring those risks, the Risk Management Group oversees risk-taking activities enterprise-wide, ensuring adherence to policies and standards.

The Risk Spectrum

Credit Risk†
Credit risk is the potential for loss due to the failure of a counterparty† or borrower to meet its financial obligations. Credit risk arises from traditional lending activity, from settling payments between financial institutions and from providing products that create replacement risk†. Replacement risk arises when a counterparty's commitments to us are determined by reference to the changing values of contractual commitments, for instance, derivatives and other treasury products. The same credit process is used for all clients.

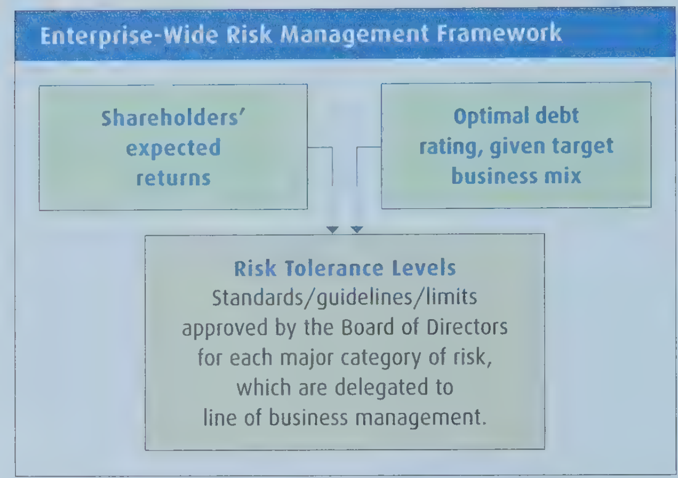
Market Risk†
Market risk is the potential for loss arising from potential adverse changes in underlying market factors, including interest and foreign exchange rates, equity and commodity prices, spread and basis risk.

Liquidity Risk†
Liquidity risk is the risk of being unable to meet financial commitments, under all circumstances, without having to raise funds at unreasonable prices or sell assets on a forced basis.

Operational Risk†
Operational risk is the potential for loss from a breakdown in communications, information or legal/compliance issues due to systems or procedural failures, human error, disasters or criminal activity.

†Defined in the glossary on page 104.

At the enterprise-wide level, we seek to ensure investors' return expectations and debt holders' risk assessments, which impact the cost at which we can raise funds, are appropriately balanced in our choice of strategies. This results in the need to manage the risk profile against tolerance levels that are in line with those Board-approved strategies. This may be shown as follows:



The Aggregation of Risks Across the Enterprise – Capital at Risk

The enterprise is moving toward using the concept of Capital at Risk (CaR) to determine capital requirements for the organization and the respective lines of business. The returns required on normal levels of risk are expected to be received from the respective revenue-generating activity, whereas capital is required to cover the potential for unexpected loss beyond the normal range. CaR is calculated for each of the various risk components (e.g. credit risk, market risk, operational risk) for a defined level of probability within a specified time interval. CaR then provides a unit of risk, which can be aggregated to provide total risk-based capital requirements.

Using CaR ensures that management understands the true capital cost for the risks it takes. This process is designed to generate the risk component in the performance measurement of risk and return, e.g. RAROC, which contributes to measurement of the economic profit and of the increase in shareholder value. CaR is therefore becoming a key tool in enabling the enterprise to optimize the appropriate risk management behaviour in accomplishing approved strategies, and to indicate how performance compares to enterprise goals.

The rest of this section describes how we manage specific risks, including their measurement, to achieve the risk/return balance depicted above. A discussion of our performance against these risk measures is also provided in each section.

Credit Risk

Strategy:

Maintain a well-diversified asset portfolio within approved risk tolerance levels; and earn a return appropriate to the risk profile of the portfolio.

Approach:

Diversification of risk within the loan and investment portfolios is a key requirement in effective risk management, particularly in the corporate and institutional portfolios, where the concentration of risk can be a significant issue. For large credit transactions, management uses advanced models to assess the correlation of risks before authorization of new exposures. Exposure to specific industries is governed by these models, or by aggregate portfolio authorization limits. Credit risk management of our client base requires personal accountability, clear delegation of decision-making authority, and disciplined portfolio management.

Credit transactions are evaluated by skilled lenders for commercial, corporate and institutional borrowers. Our credit function then provides an independent assessment of all significant transactions, and agreement from this function is normally required before lending commitments are approved. Our independent internal audit group also reviews management processes to ensure that established credit policies are followed.

Technological tools and development have allowed us to focus time and resources on higher-risk transactions. The prompt recognition of problem loans is stressed, with material loans being transferred to skilled specialists to manage these accounts.

Monitoring of performance and pricing of credit transactions are commensurate with risk and are determined using Risk Adjusted Return on Capital (RAROC)† (described below) in addition to other methodologies. RAROC is applied to all large commercial transactions and draws upon a number of external market data feeds, including credit ratings and stock exchange data.

Risk Adjusted Return on Capital (RAROC)

RAROC facilitates the comparison, aggregation and management of market, credit and operational risks across an organization. This methodology was implemented to support risk assessment and measurement applications. RAROC allows management to view these risks on a comparative basis, differentiating by risk class. These comparisons, which can be performed by transaction, client and line of business, enable management to better understand sustainable performance, actively manage the composition of portfolio risk, and allocate capital to those businesses that can most advantageously deploy the capital to maximize shareholder value. This provides a framework for measuring risk in relation to return at each level of our activity.

†Defined in the glossary on page 104.

We calculate the expected loss (EL) for individual transactions (as part of the calculation of their RAROC) and for the portfolio as a whole (in order to establish a prudent annual forecast of loan loss provisions and the appropriate level of general allowance for credit losses). We define EL as management's estimate, for the forthcoming fiscal year, of one year's credit losses. The estimate relies upon judgement, in addition to the following:

- the probability of default(s);
- the amount of outstanding exposure at the time of default(s);
- the difference between the book value and market value/realizable value of loans, if default(s) occurred; and
- the effect of economic/industry cycles on asset quality and loan values.

EL should provide a reliable estimate of one year's losses for both the forthcoming year and each successive year under a normal economic cycle. These estimates are supported by quantitative analysis of these factors where possible. Estimates and assumptions underlying EL calculations may be supported by portfolio monitoring, historical experience, market data and/or proxies for market data, and modelling of economic and business-specific events. Further information on EL is provided in the box below.

Expected Loss (EL)

We express EL in either gross or net terms. Gross EL captures all exposure to credit loss regardless of accounting treatment (e.g. credit losses occurring in subsidiaries, affiliates, joint ventures, securitization vehicles, etc.), unless the risk has been fully transferred to third parties or has already been recognized (e.g. via first loss protection or capital allocation). Net EL includes only the estimates of losses from credit risk that would, if incurred, result in a charge to the Bank's provision for credit losses.

Adjustments are made for percentage ownership in subsidiaries, affiliates and joint ventures, as well as for securitizations, where loss is recognized as a non-interest revenue item rather than being included in the provision for credit losses. When considering the sufficiency of the general allowance, we calculate the amount of the allowance as a multiple of gross EL.

We also measure the degree of potential volatility around the estimated EL, since the volatility of risk is a more important factor for certain assets than the EL. Therefore the exposure to the extremes of volatility requires the maintenance of an adequate level of capital. As a result, we use volatility of loss measurements as a key input in determining the capital at risk (CaR).

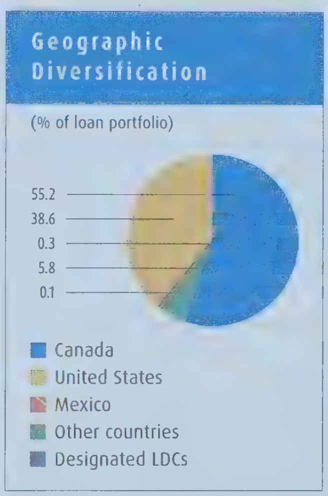
Measures:

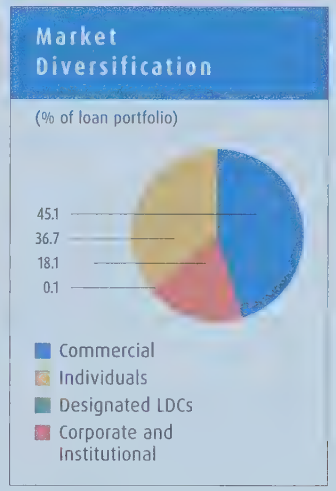
Credit risk is measured by both the provisioning ratio and gross impaired loans as a percentage of equity plus the allowance for credit losses. These are our two primary measures and are discussed in more detail in the Credit Risk section on page 33, which provides an analysis of loan quality and losses for the year.

Performance Review:

Portfolio Diversification

We have a well-diversified portfolio of lending relationships with millions of clients, of which the majority are consumers and small to medium-sized businesses. The portfolio also continues to be free from undue concentrations in terms of country exposure and type of lending, as indicated in the charts below.





The provision for credit losses as a percentage of average loans and acceptances for 1999 was 0.22% compared to 0.09% for 1998. The increase reflects the fact that the provision in 1998 was unusually low as a result of non-recurring benefits related to collection activity on commercial real estate loans.

Gross impaired loans and acceptances as a percentage of equity and allowance for credit losses was 8.53% compared to 6.66% at the end of 1998. The increase was primarily due to higher levels of gross impaired loans due to weaknesses in the energy sector. These measures are discussed further on page 33.

Market Risk

Strategy:

To identify, measure, monitor and control all market risk-taking activities, ensuring that exposures remain within approved risk tolerance levels and that the economic profit from market risk activities is acceptable.

Approach:

We have established a Board-approved corporate standard for market risk tolerance, within which our market risk activities are conducted. For non-trading risks in the Canadian, U.S. and international portfolios, market risk is controlled by actively managing the asset and liability mix, either directly through the balance sheet or with off-balance sheet derivative instruments†. Our measures also focus on off-balance sheet exposure gaps, interest rate exposure gaps and sensitivity to rate changes. The methodologies for trading risk measurement include Value at Risk† (VaR) and market risk capital against the Bank for International Settlements (BIS) standards.

We use derivative instruments for both hedging and trading purposes, which is discussed in note 21 to the consolidated financial statements. We also offer derivative products to clients for their own risk management and investment purposes. The use of these products generates two primary risks, credit/replacement risk and market risk.

Interest Rate Risk Management

Interest rate risk is our primary non-trading market risk. We use two primary risk models to determine the sensitivity of our non-trading portfolios to adverse interest rate changes. A 100 basis point† increase model calculates the impact on earnings and the value of our assets and liabilities of a one-time 100 basis point increase across all portfolios. This model is used by most financial institutions and hence facilitates comparability with our peers.

Our second measure is the rising interest rate risk model, which is used internally as a more sophisticated measure of risk. This model calculates the impact on earnings over the next 12 months, and on the value of our assets and liabilities, of a one-time increase in rates. It reflects the maximum expected rate change in each portfolio during the estimated period required to close our positions in that portfolio. Management considers this a more accurate reflection of our risk. These instruments are short-term in nature and we would normally be able to close them before a full 100 basis point increase occurred.

Trading Risk Management

During the year we successfully completed implementation of our Integrated Value at Risk (I-VaR) methodology for foreign exchange and interest rate risk trading portfolios. We received approval from our primary regulator (OSFI) to use this as an internal model for regulatory capital purposes effective April 30, 1999.

The implementation of this project significantly improves our ability to measure and evaluate risk, while providing netting and correlation benefits within portfolios.

VaR methodologies for trading portfolios that incur equity and commodity risk are currently in development.

Overall Market Risk Sensitivity

Our market risk sensitivity model uses the same core principles as the rising interest rate risk model, but in addition to rising interest rate risk, it incorporates the impact of all adverse market rate/price changes within the different time periods required to close each of our portfolios. The model also views each portfolio separately and hence can be more conservative.

Measures:

Earnings at Risk†, Economic Value at Risk† and Integrated Value at Risk are the primary measures for analyzing market risk. These measures calculate the impact on earnings and economic value of a one-time change in market rates/prices. This calculation is based on the estimated maximum adverse market rate/price change that would be expected to occur within the estimated time period required to neutralize the risks in a portfolio, and is applied to our positions at the period end. Our estimates are based upon statistical historical analysis using a 97.5% confidence level, except for interest rate and foreign exchange trading portfolios, which are based upon a one-day 99% confident VaR measure. The calculations exclude the effect of actions that we might take to reduce risk, actions that clients might take in response to changing rates/prices, and correlations between portfolios. The box below details the components of the Balance Sheet which may create market risk.

Balance Sheet Components

Structural: Canadian and U.S. retail and commercial and Canadian corporate instruments

Money market: Bank placements and acceptances, and international loans and investments

Trading: Instruments designated as trading and marked-to-market.

†Defined in the glossary on page 104.

Performance Review:

The tables below provide a summary of our interest rate and overall market risk sensitivity.

Interest Rate Risk Sensitivity – Rising Interest Rates

As at October 31, 1999 (after-tax Canadian equivalent $ millions)	Structural and money market portfolios 100 basis point increase	Rising interest rate risk (b)
Earnings at risk over the next 12 months (a)	70.2	43.6
Economic value at risk (a)	351.0	438.7

(a) Risk measures include the impact of embedded options but exclude actions that we could take to reduce risk or the actions that clients might take in response to changing rates. Other assumptions are consistent with those disclosed for the gap position in Table 7 on page 63 of the Annual Report.
(b) Risk measures are based upon statistical analysis of historical data on an individual portfolio basis using a 97.5% confidence level.

BIS – Market Risk Capital for Trading Books

Effective April 30, 1999, we received approval to use an integrated VaR model approach in the market risk regulatory capital calculation. The integrated VaR model measures the market risk associated with both foreign exchange and trading interest rate risk.

I-VaR Summary for the Period from Feb. 1 to Oct. 31, 1999

(US$ millions)*	
High	13.8
Low	4.3
Average	8.2
As at year-end	11.3

*One-day measure using 99% confidence level.

The "standardized approach" continues to be used for the other risk categories, commodities, equities and "specific" risk. Overall, the BIS "minimum capital requirement for market risk" is $538 million at October 31, 1999, down from $647 million at the end of fiscal 1998, due primarily to the lower interest rate risk capital requirement calculated under the VaR approach.

Market Risk Sensitivity – Adverse Changes in Market Rates/Prices (a)

As at October 31 (after-tax Canadian equivalent $ millions)	1999 Cdn$	1999 US$	1998 Cdn$	1998 US$
Earnings at risk over the next 12 months (b)	**54.4**	**45.1**	43.1	33.2
Economic value at risk (b)	**371.1**	**98.1**	390.3	104.7

(a) Earnings at risk and economic value at risk include Cdn$17.5 and US$12.8 in 1999, and Cdn$22.7 and US$16.7 in 1998, related to trading portfolios.
(b) Assumptions for the model are consistent with (a) and (b) under interest rate risk sensitivity, with the additional inclusion of minimum rates on deposits.

The decrease in economic value at risk from 1998 to 1999 reflects the impact of recent market conditions on the historical data included in our model, as well as continued asset growth. The increase in earnings at risk from 1998 to 1999 reflects increased exposures in the structural balance sheets.

Liquidity Risk

Strategy:

Our goal is to maintain sufficient funds and funding capacity to meet our net cash outflow commitments, both on- and off-balance sheet. In the event of a liquidity crisis, such commitments would be covered without having to raise funds at unreasonable prices or sell assets on a forced basis. Our objectives are thus to ensure the stability of our deposit base through diversification, and to maintain an appropriate level of liquid assets.

Approach:

Our approach to liquidity management is to measure and forecast liquidity requirements based on expected economic, market, political and enterprise-specific events. This enables us to determine if we have sufficient funds available to meet all short-term liquidity demands, even in times of crisis. Funds would encompass both liquid assets on hand and the capability to raise additional funds to meet liquidity requirements. Liquidity risk is measured by estimating our potential liquidity and funding requirements within stressed environments. We continuously monitor liquidity risk and actively manage our balance sheet to minimize this risk.

We also access the capital markets for medium to long-term funds as required and when market opportunities permit. This complements daily cash management activities and provides diverse funding sources, enabling us to take advantage of cost-efficient funding opportunities. The activity in the capital markets usually involves funds that are two to ten years in term.

Asset securitization provides an alternate source of funds through the sale of assets. During 1999 we securitized $500 million of assets. Further information about securitization can be found in the Capital Adequacy section on page 36. Our asset securitization capabilities contribute to our liquidity and funding risk management program.

Preparation for Year 2000 risk has represented a potential liquidity issue for the financial services industry. In the process of mitigating this risk, we have enhanced our monitoring and strategic response techniques. These have been incorporated into our current liquidity and funding risk management processes.

Measures:

Our primary measure of liquidity is the liquidity ratio, with our secondary measure being core deposits as a percentage of total deposits. Both of these measures are discussed in more detail on page 34.

In managing liquidity, management establishes minimum liquid asset requirements, together with limits and guidelines for liability diversification and contingent credit commitments. Sensitivity analyses are run to determine the impact of potential deposit withdrawals and commitment draw-downs, as well as the impact of changing business environments and extreme events (e.g. Year 2000 risk) on liquidity requirements. The analyses are evaluated and strategies are formulated to enable us to react to changes in an appropriate and timely manner.

Performance Review:

The liquidity ratio increased to 29.2% at October 31, 1999 from 28.4% at October 31, 1998, as discussed further on page 34.

Operational Risk

Strategy:

Operational risk is inherent in all business activities, and the management of these risks is important to the achievement of business objectives. While operational risks can never be eliminated, they can be managed and mitigated to preserve and create value. That is our goal.

Approach:

A Board-approved policy provides clear direction to all lines of business and employees and establishes accountabilities and responsibilities to identify, assess, appropriately mitigate and control operational risks. We continue to use the strengths and specialized knowledge of our Risk Management, Corporate Audit, Emfisys and other support functions in the Bank to support the lines of business in managing operational risk.

Operational risk is managed through effective infrastructure, appropriate controls and sound governance, as follows.

Infrastructure

Key elements of the infrastructure include qualified, well-trained personnel, clear authorization levels and reliable technology. Controls, established by documented policies and procedures, include the regular examination of internal controls by an independent internal audit function, appropriate segregation of responsibilities, and accurate financial management and reporting. In addition, contingency plans for systems failure or catastrophic events are in place, including back-up systems. We also mitigate exposures where appropriate through insurance coverage, which is reviewed regularly as part of our integrated insurance program.

Reporting

The Risk Management Group reports significant operational events (if any) that occur throughout the Bank to executive management and the Board of Directors. Corporate Audit also provides regular reports to the Audit Committee of the Board of Directors on the effectiveness of internal controls.

Governance

We monitor on a regular basis the effectiveness of our management of operational risks. The Risk Management Group and Corporate Audit provide executive management and the Board of Directors with independent analysis and findings on the state of operational risk management within the Bank.

Measures:

The financial measure of operational risk is actual losses incurred.

Performance Review:

No material losses occurred in 1999, 1998 or 1997; however, there is no assurance that we will not suffer such losses in the future due to the nature of this risk.

Year 2000

The Year 2000 issue is pervasive, as almost all date-sensitive systems will be affected to some degree by the rollover of the two-digit year from 99 to 00. Potential risks of not addressing this issue include business interruption, financial loss, reputation loss and/or legal liability.

We have been working since 1994 to prepare our date-sensitive systems and equipment to meet the Year 2000 challenge. The process for Year 2000 compliance has involved four major steps:

- *Inventory:* We conducted a Bank-wide inventory of all date-sensitive systems and equipment. We performed an initial assessment of time and effort required.
- *Assessment/Plan:* We performed an impact assessment by evaluating remediation options, prioritizing work and developing compliance plans.
- *Implementation:* The implementation step included verification, conversion and replacement or retirement of assets. If an asset was not retired, it was tested and its Year 2000 compliance was verified.
- *Integration:* Integration testing consisted of confirming that the business functions work accurately and without disruption under specific Year 2000 dates, with all applications, interfaces and infrastructure functioning correctly.

We have completed Year 2000 compliance for all critical assets and business operations as well as for virtually all non-critical systems. We have successfully tested our systems' interfaces with those of our key suppliers and clients in a Year 2000 compliant test environment.

A priority during 1999 has been contingency planning and transition management. We have modified our business contingency plans to incorporate Year 2000 risks. A transition management team, with representatives from across the organization, has been created to manage the transition at an enterprise level. Simulations in individual banking groups and across the organization continue to take place to test the effectiveness of our contingency plans.

In addition, we are continuing with two corporate programs to ensure the Year 2000 compliance status of our systems. Clean Management is a maintenance and monitoring initiative practiced by all employees to ensure that our remediation of systems and equipment is not compromised by any subsequent change to our assets. Our Freeze Program, effective April 30, 1999 for applications and June 30, 1999 for infrastructure, has halted major system implementations. All requests for new implementations are reviewed and granted exception status only if the implementation can be made without compromising our Year 2000 compliance.

We have worked with other major banks and third parties to ensure that interconnected systems within the financial sector work together in a Year 2000 environment. We have participated with other major banks in Canada in industry-wide tests with organizations such as the Interac Association, CIRRUS®, the Canadian Payments Association and the Canadian Depository for Securities (CDS).

We have performed Year 2000 readiness assessments of major third parties with which we deal, including clients, counterparties, payment systems and vendors. A credit working group has been managing Year 2000 risks across the lines of business and continues to assess the overall risks of major borrowers in targeted market segments which include Canadian commercial accounts, Harris clients, corporate accounts and financial institutions. This process includes ongoing reviews of the impact of Year 2000 issues on borrowers. Based on our current evaluation of the information we have received to date, we do not expect that the Year 2000 issue will have a material impact on the quality of our loan portfolio. We believe our total allowance for credit losses is adequate to cover currently foreseeable losses, including any potential impact associated with the Year 2000 issue.

We have communicated to our clients that the financial records of their accounts will be protected and that their securities and money will be safely held in their accounts. As part of our contingency preparations, we have worked with the Bank of Canada, and we expect that we will meet increased demands for cash during the Year 2000 transition.

In total, we expect the cost of solving the Year 2000 issue to be approximately $340 million, as described below:

Estimated spending for Year 2000 system remediation over seven years (1994 to 2000); this figure represents our mainframe and centrally supported client server applications	$164 million
Estimated business unit costs, including end-user developed applications and embedded systems (elevators, security access systems, etc.) as well as transition management and contingency planning costs	$82 million
Estimated capital costs for hardware and software	$94 million

As of October 31, 1999, we have incurred costs of $327 million, of which $92 million was capitalized.

Our objective is that our business operations run accurately and without disruption before, during and after the calendar changes to the year 2000. However, due to the general uncertainty inherent in the Year 2000 issue, resulting in part from the uncertainty of the Year 2000 readiness of other parties, we are unable to determine at this time whether the Year 2000 issue will have a material adverse impact on our results of operations, liquidity and financial condition.

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Operating Review of Client Groups

During the year the Bank was reorganized into three client groups which are more closely aligned with our client segments. These three client groups have replaced our previous five operating groups.

The businesses and clients served by each of our client groups are described in the accompanying group sections. All financial information included in these sections has been restated to reflect the 1999 organizational changes.

Net income earned and the average assets held by each operating group are shown by geographic area in the table below. In addition, the table shows business mix by group.

Personal and Commercial Client Group

Net income was $1,106 million in 1999, an increase of 16.9% from the prior year. Revenue growth of $336 million was offset in part by expense growth of $135 million and a $9 million increase in the provision for credit losses, as explained further on page 45.

Private Client Group

Net income was $92 million for the year, a decrease of $17 million or 15.2% from the prior year. Increased revenues of $38 million were more than offset by expense growth of $57 million as detailed on page 52.

Investment Banking Group

Net income was $426 million in 1999, an increase of $85 million or 24.9% from the prior year. Revenue growth of $301 million was offset in part by higher expenses of $87 million and an $87 million increase in the provision for credit losses, as explained further on page 55.

Corporate Support

The net loss for the year was $242 million compared to a net loss of $45 million last year. Revenues declined $17 million and expenses increased $224 million, including the one-time charges of $196 million described on page 27. The provision for credit losses also increased $94 million, contributing to the overall decline in earnings.

Corporate Support ($ millions except as noted)

As at or for the year ended October 31	1999	1998*	1997*
Net interest income	**(270)**	(180)	8
Other income	**191**	118	9
Total Revenue	**(79)**	(62)	17
Provision for credit losses	**45**	(49)	19
Non-interest expense before restructuring charge	**102**	19	129
Restructuring charge	**141**	0	0
Total non-interest expense	**243**	19	129
Income before taxes, non-controlling interest in subsidiary and goodwill	**(367)**	(32)	(131)
Income taxes	**(148)**	(19)	(28)
Non-controlling interest in subsidiary	**5**	14	25
Goodwill	**18**	18	14
Net Income	**(242)**	(45)	(142)
Average assets	**(4,742)**	(3,008)	1,470
Average current loans	**(10,880)**	(4,141)	(363)
Average deposits	**4,462**	1,513	1,019
Full-time equivalent staff	**5,243**	5,266	5,794

*Restated to give effect to the current year's organization structure and presentation changes

Net Income Business Mix and Average Assets by Operating Group

For the year ended October 31	Personal & Commercial Client Group 1999	1998*	1997*	Private Client Group 1999	1998*	1997*	Investment Banking Group 1999	1998*	1997*	Corporate Support (a) 1999	1998*	1997*	Total Consolidated 1999	1998*	1997*
Net Income ($ millions)															
Canada	**632**	641	588	**56**	63	70	**82**	80	205	**(306)**	(73)	(312)	**464**	711	551
United States	**303**	229	216	**25**	31	20	**271**	237	172	**34**	28	103	**633**	525	511
Mexico	**111**	21	74	**0**	0	0	**7**	4	5	**3**	(1)	6	**121**	24	85
Other countries	**60**	54	58	**11**	15	3	**66**	20	36	**27**	1	61	**164**	90	158
Total	**1,106**	945	936	**92**	109	93	**426**	341	418	**(242)**	(45)	(142)	**1,382**	1,350	1,305
Business Mix (%)	**80.0**	70.0	71.7	**6.7**	8.1	7.1	**30.8**	25.2	32.1	**(17.5)**	(3.3)	(10.9)	**100.0**	100.0	100.0
Average Assets ($ billions)															
Canada	**75.6**	70.5	63.2	**1.6**	2.4	2.0	**39.0**	49.3	44.9	**(8.0)**	(4.1)	0.5	**108.3**	118.0	110.6
United States	**35.9**	31.9	27.2	**1.8**	1.5	1.1	**41.5**	41.3	34.2	**3.0**	0.9	0.7	**82.1**	75.6	63.2
Mexico	**0.7**	0.7	0.7	**0.0**	0.0	0.0	**0.8**	0.7	0.6	**0.1**	0.1	0.2	**1.7**	1.6	1.4
Other countries	**0.2**	0.1	0.0	**0.1**	0.1	0.1	**34.2**	32.0	21.3	**0.1**	0.1	0.1	**34.6**	32.3	21.5
Total	**112.4**	103.2	91.1	**3.5**	4.0	3.2	**115.5**	123.3	101.0	**(4.8)**	(3.0)	1.5	**226.7**	227.5	196.7

*Restated to give effect to the current year's organization structure

(a) Corporate Support includes any residual revenues and expenses representing the difference between actual amounts incurred and the amounts allocated to operating groups. Corporate Support also includes the impact of asset securitization as described in more detail in the capital adequacy section.

Basis of presentation of results of operating groups

Expenses are matched against the revenues to which they relate. Indirect expenses, such as overhead expenses and any revenue that may be associated thereto, are allocated to the operating groups using appropriate allocation formulas applied on a consistent basis. For each currency, the net income effect of funds transferred from any group with a surplus to any group with a shortfall is at market rates for the currency and appropriate term. Segmentation of assets by geographic region is based upon the ultimate risk of the underlying assets. Segmentation of net income is based upon the geographic location of the unit responsible for managing the related assets, liabilities, revenues and expenses.

Personal and Commercial Client Group

Group Description:

It is the goal of the Personal and Commercial Client Group (P&C) to create a distinctive, high-quality service for clients. P&C currently provides financial services to about seven million households and commercial businesses across Canada and the United States.

Client Profile:

P&C provides a full range of products and services to both individuals and small and medium-sized businesses in Canada and the United States.

P&C works in partnership with the Private Client Group and the Investment Banking Group to provide high-quality service and choice in products and access channels.

Environmental Overview:

Low interest rates and inflation, as well as reduced unemployment, are creating increased demand for consumer and commercial loans. The continued flattening of the yield curve, caused by short-term interest rate increases during 1999, reduced net interest margin, thereby mitigating the impact of loan volume growth on results. Competition in Canada and the United States is increasing, from both the global banking sector and new non-bank and niche players. Increased competition leads to lower fees and places further pressure on spreads. To address these challenges, P&C's key business strategies are aimed at meeting the needs of clients through product development and a high-quality workforce, supported by value-driven technology.

Personal and Commercial Client Group – Canada

Key Business Strategies:

- Invest in those businesses with the potential to add significant value, using the Value Based Management discipline.
- Align and integrate our distribution channels to provide integrated, high-quality solutions for our clients.
- Redesign the branch network to reflect changing client needs.
- Improve client knowledge management to profitably retain and grow client relationships.
- Develop our workforce, to achieve a high-performing sales culture.
- Invest further in e-commerce initiatives and direct banking distribution channels.

Client Sales and Service Network

mbanx Direct

1999 Accomplishments:

- Launched mbanx Direct, which consolidates mbanx and Telebanking. The number of direct banking clients increased by 48% to nearly one million. Growth in transaction volumes reflects the increased use of mbanx Direct services, compared to traditional channels.
- mbanx continued to lead all Canadian banks in customer loyalty scores.
- Redesigned and combined the mbanx and netbanking Internet sites which improved efficiencies and increased functionality from 13 to 34 services.

Strategies for 2000:

- Continue investment in technology, and leverage of customer knowledge group, enabling close interaction with the branch system.
- Further development and expansion of direct banking capabilities for our commercial clients.

Branch Network

1999 Accomplishments:

- Continued to restructure the branch network. As the volume of Everyday Banking transactions in branches declines, our strategy is to reduce the aggregate space devoted to transactional service, while maintaining approximately the same number of total outlets.
- Opened 33 new In-Store facilities, extending our successful alliances with Canada Safeway in the west, and with A&P in Ontario. This brings the total number of In-Store branches to 43.
- Opened two new remote-service locations, in Moose Factory, Ontario and Deline, NWT.
- Consolidated 62 branches.

Strategies for 2000:

- Consolidation of 105 branches.
- Opening of 45 In-Store branches.

Client Knowledge Management

1999 Accomplishments:

- Implemented a Comprehensive Retention Management Program which helps us retain clients. We have also initiated a pro-active client contact program aimed at client retention.
- The customer knowledge-based decision system has increased our understanding of our clients – products held, channels of distribution used, transaction behaviour displayed and resultant profitability.
- Enhanced information tools were provided to Financial Service Managers to help manage their client portfolios in terms of retention and growth.

Strategies for 2000:

- Expand and improve the customer information database.
- Develop and implement an enterprise-wide sales and service platform.

Residential Mortgages

1999 Accomplishments:

- Introduced two new products: the 18-year Open Term and the Investment Option Mortgage, as well as the enhancement of a popular prepayment feature.
- Established Mortgage Lending Specialists to improve client focus and service in key markets.
- Completed purchase of IMC Company, a Canadian originator of sub-prime mortgages, enabling us to offer mortgages to several underserved market segments.

Strategies for 2000:

- Enhance profitability and growth of residential mortgage products through client value management and product improvements.
- Expand into new market segments by leveraging our loan decisioning capabilities, and develop new capabilities in related businesses.
- Continuously improve operating efficiency in our systems and processes to ensure delivery at the lowest possible cost.

Small Business Banking

1999 Accomplishments:

- Introduced a comprehensive set of Everyday Banking Plans for Business, with pricing and service levels based on frequency of usage and the differentiated cost of serving distribution channels.
- Developed an Internet site dedicated to the specific needs of the Agriculture sector.
- Launched a highly customized financial service program targeting the needs of Chartered Accountants and Certified General Accountants across Canada.

Strategies for 2000:

- Continue to improve our cost position through the introduction and improvement of lower-cost telephone and Internet delivery channels, centralization of processes and systems efficiencies.
- Continue to build strong capabilities in credit adjudication, automated and risk-based pricing decisioning, propensity/predictive modelling and behavioural scoring.
- Simplify and improve the product offering to save clients time and provide more value through industry-specific solutions.

Commercial Mid-Market Banking

1999 Accomplishments:

- Created a fully mobile Commercial sales force supported by state-of-the-art computers and communication infrastructure.
- Continued to expand the Corporate Finance teams to deliver leading-edge financial solutions.

Strategies for 2000:

- Aggressively and selectively target high-growth/value businesses in key industry sectors and regions and continue to leverage our Corporate Finance capabilities.
- Enhance sales force competency through additional training/accreditation and highly targeted intake programs.

Consumer Finance

1999 Accomplishments:

- Bank of Montreal and Newcourt Credit Group formed FinanciaLinx, an innovative Internet auto leasing alliance. This product provides automotive dealers a new source of revenue generation.
- Developed electronic consumer loan application capabilities for our Mobile Sales Force.
- Leveraged our industry-leading loan decisioning technology to expand into new client segments, which significantly increased yields and loan revenue, while maintaining credit quality.

Strategies for 2000:

- Improve and expand product offering by simplifying and rationalizing the current total product suite to make it easier for our clients to address all of their personal credit needs.
- Improve the delivery of our offerings through the expansion and development of new distribution channels including In-Stores, mobile lenders and online lending.
- Reduce operating costs by improving lending systems efficiencies.

Everyday Banking

1999 Accomplishments:

- Implemented changes to our Everyday Banking Services which restructured pricing and services. These changes more appropriately price services to our clients, based on transaction frequency and the differentiated cost of serving distribution channels. More than 2.1 million of our clients are members of our Everyday Banking Plan.
- Implemented segment pricing. Youths under 21, students under 25 and seniors over 60 can now do the most common Everyday Banking transactions for no charge.

Strategies for 2000:

- Continue to focus on differentiated pricing based on transaction volumes and channel preference.
- Significant product development to address changing client needs and competitive offers.

Insurance

1999 Accomplishments:

- Recognizing the profitability of our Creditor and Reinsurance operations, this line of business was identified as a key priority for the future, and key leadership positions were staffed.
- Re-engineered the Creditor Insurance products relating to Personal Loans. This resulted in a more attractive product that is easier to sell and has led to immediate increases in sales.

Strategies for 2000:

- Continue to expand the scope of our international reinsurance operations, particularly in markets where some of our key strengths can be leveraged.
- Continue work on product/process re-engineering coupled with expert sales support and training to achieve top tier performance in creditor insurance.
- Selection of optimal participation strategies for the non-authorized insurance market.

Corporate Electronic Financial Services

1999 Accomplishments:

- Introduced several web-enabled products and services. Treasurers Home Page, DEFT for Windows (Direct Electronic Funds Transfer), ESQwire (Easy, Safe, Quick wire payments) all provide clients with improved functionality and flexibility to manage their working capital and wire payment needs.
- Business Solutions created a channel which will provide e-commerce and financial services to small and mid-sized clients in Canada and the United States.
- Corporate Electronic Financial Services continued to maximize value through the sale of Global Custody.

Strategies for 2000:

- Improve client responsiveness by transforming our customer service process through web-enabled technology that will streamline processes and extend our reach into strategic market segments.
- Refocus efforts on product, market and client segments that provide the greatest return and growth potential.
- Expand market for wire payment services by developing new web functionality for client access products that incorporate features attractive to commercial and retail clients.

Credit Card Services

1999 Accomplishments:

- Bank of Montreal's Merchant Services Implementation and Control department received ISO 9000 Quality certification – the first Canadian financial institution to achieve this award.
- Merchant customer satisfaction scores were significantly better than our competitors, in part due to our investment in employee programs and technology.
- Continued development of advanced risk management techniques resulting in improvements in credit loss and fraud management.
- All MasterCard® cardholders can now choose to have their statements electronically presented to them on the MasterCard web site.

Strategies for 2000:

- Manage profitability at the account level, expanding data engineering and analytic techniques to re-engineer marketing and sales and service to reflect account level knowledge.
- Leverage partnerships to optimize mutual advantage.
- Pursue Corporate Card as a strategic plank for growth in North America, offering world-class card and electronic commerce solutions.

e-business

1999 Accomplishments:

- Implemented the Harris Bank integrated suite of web sites, providing consistent, integrated online banking, trust and brokerage services.
- Launched Competix, which creates value for small U.S.-based financial institutions by providing an online credit and decisioning system.
- Launched the pilot of Veev™, which provides wireless access on Qualcomm cell phones and on palm computing devices to online banking, brokerage and lifestyle services.

Strategies for 2000:

- Optimize existing technologies, capabilities and projects across the organization.
- Develop the full spectrum of end-to-end electronic client service functionality.

Cebra

1999 Accomplishments:

- Launched MerxBidline™† on America Online US, which provides government tender opportunities for users in over 140 countries.
- Developed and launched the Electronic Post Office™* (EPO) as part of a strategic alliance with Canada Post. EPO is a revolutionary new way to electronically deliver mail securely and conduct e-commerce.
- Developed and launched TotalTrade™‡, which provides a web-based business-to-business trading solution that removes paper from business transactions.

Strategies for 2000:

- Leverage and integrate Cebra's core businesses to form a complete Internet business-to-business offering which will focus on three core businesses: MERX, TotalTrade and Electronic Post Office.
- Expand Cebra's reach to the United States and other parts of the world through the acquisition of established and complementary companies.

Personal and Commercial Client Group – Harris Regional Banking

Key Business Strategies:

- Expand Midwest middle-market corporate banking franchise.
- Build and expand retail banking franchise in Chicagoland.
- Continue structural cost reductions through North American integration and standardized processes.
- North Americanization of lines of business – while retaining Harris-wide "cohesion" in the marketplace.
- Continue to opportunistically assess merger, acquisition and joint venture combinations for Harris' various lines of business.

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™† Trade mark of Cebra Inc.
™* Trade mark of Canada Post Corporation
™‡ Trade mark of Bank of Montreal

Chicagoland Community Banking

1999 Accomplishments:

- Harris Community Banking enjoyed another strong year by providing clients with a broad array of products across multiple channels, including an enhanced online banking offering.
- Through a new market segment and regional management framework and a redesigned product offering, Community Banking improved sales effectiveness and tailored services to provide clients with greater choice.
- Community Banking achieved a significant improvement in retail deposit margins – after growing deposits at a rate more than twice the market growth rate over the last several years.
- Increased market share of mortgage originations secured our #2 position in the Chicagoland mortgage and home equity markets.
- Three new Hispanic Banking branches were opened, bringing the total number of bilingual branches serving this attractive, rapidly growing market to 11 – in addition to our Spanish-language call centre and web site.
- Standardization of both operating platform and process improvements resulted in substantial productivity gains.
- Community Banking delivered superior financial performance, with income up 39% in 1999.

Strategies for 2000:

- Continue to leverage our unique market positioning as the most "locally rooted, centrally leveraged" financial services provider in the fragmented, underserved Chicagoland marketplace.
- Retail banking will employ a balanced growth and pricing strategy to maximize profitable growth.
- Harris Community Banking will import our highly successful Canadian small business approach and capability, to grow and expand our business with this important sector across Chicagoland.

Mid-Market Corporate Banking

1999 Accomplishments:

- Harris Corporate Banking ranked as the sixth-largest mid-market corporate bank in the Midwest, gaining more than 750 new relationships over the past five years, including a net increase of 110 relationships during the current year.
- Asset quality continues to be amongst the best in the United States, and net interest margin has increased despite increasingly competitive market conditions.
- Asset-based lending is enjoying substantial success in the United States and beginning to serve the Canadian market as well.

Strategies for 2000:

- Leverage our successful relationship advisory approach emphasizing segmented client coverage and specialized industry knowledge.
- Fully integrate Corporate and Investment Banking to provide clients with a broad range of capital markets solutions and investment banking services.

Corporate Trust

1999 Accomplishments:

- Corporate Trust group retained its national rank as fourth in shareholder services and ninth in bond indenture services, while achieving record growth in high value-added services relating to structured finance and mergers and acquisitions transactions.
- The group inaugurated a new, state-of-the-art systems platform during the year and substantially web-enabled its delivery platform. Its new call centre also received the International Call Center's "Showcase Award" for quality service.

Strategies for 2000:

- Focus on organic growth with new higher-value products, leveraging new technology and improving productivity to enhance the marketing and value propositions for mid-market and large corporate clients.

Personal and Commercial Client Group – Bancomer

Key Business Strategies:

- Bank of Montreal has had a minority investment (16.6% equity/20% voting) and strategic alliance with Grupo Financiero Bancomer since 1996.
- Priority joint business areas during 1999 included the Hispanic retail banking market in the United States and Canada, Corporate and Investment Banking, Cross Border Cash Management and various consultative technology transfer initiatives.

Hispanic Banking

1999 Accomplishments:

- During 1999, we made important progress with respect to enhancing our ability to serve the Hispanic personal banking market in Chicago.
- Launched a new wire transfer service, enabling Harris clients to send money to Mexico quickly, efficiently and securely.
- The Harris web site (www.harrisbank.com) has also been made bilingual (English/Spanish).

Strategies for 2000:

- In 2000, our goal is to extend our services to the Hispanic community in Chicagoland, working with Bancomer, opening new bilingual branches and making mbanx PC banking fully bilingual. We will also begin to extend our services to Hispanic communities in other areas of the United States.
- In the corporate and mid-market, we will continue to work together with Bancomer, leveraging our combined capabilities to meet the financing and cash management needs of our clients doing business in and with Mexico.

Financial Results

Personal and Commercial Client Group

Net income for the Personal and Commercial Client Group (P&C) was $1.1 billion in 1999, up 16.9% over 1998. Revenue increased $336 million, or 7.0%, due to volume growth across most lines of business and higher revenues from credit card operations and other fee-related income, partly driven by product and distribution initiatives. Volume growth was partially offset by narrower spreads. Revenue growth also benefited from improved market conditions and business growth in Mexico, which resulted in a $90 million increase in the contribution from our investment in Bancomer. Revenue for the group also included a $27 million gain from the sale of our Global Custody business during the year. The 4.5% rise in expenses from a year ago was the result of ongoing business operations, costs related to productivity improvements, and strategic initiatives including continued investment in alternate delivery channels.

Net income of $945 million in 1998 rose $9 million over 1997. Revenue growth of $179 million, together with a decrease of $59 million in the provision for credit losses, more than offset expense growth of $198 million. Strong loan volume growth and other fee revenues were partially offset by narrower spreads. The provision for credit losses decreased as a result of the sale of our U.S. card business. Expense growth was due to growth in our technology-related businesses and expanding banking operations in the United States. Both revenues and expenses for our U.S. operations were affected by the U.S./Canadian dollar exchange rate.

Personal and Commercial Client Group ($ millions except as noted)

As at or for the year ended October 31	1999	1998*	1997*
Net interest income	**3,634**	3,456	3,435
Other income	**1,513**	1,355	1,197
Total Revenue	**5,147**	4,811	4,632
Provision for credit losses	**204**	195	254
Non-interest expense	**3,149**	3,014	2,816
Income before taxes, non-controlling interest in subsidiary and goodwill	**1,794**	1,602	1,562
Income taxes	**663**	637	614
Non-controlling interest in subsidiary	**16**	11	0
Goodwill, net of applicable tax	**9**	9	12
Net Income	**1,106**	945	936
Average assets	**112,407**	103,181	91,096
Average current loans	**91,019**	84,466	74,362
Average deposits	**86,669**	85,633	79,648
Full-time equivalent staff	**21,734**	22,108	22,701
Expense-to-revenue ratio (%)	**61.2**	62.6	60.8

*Restated to give effect to the current year's organization structure and presentation changes

Personal and Commercial Client Group – Canada

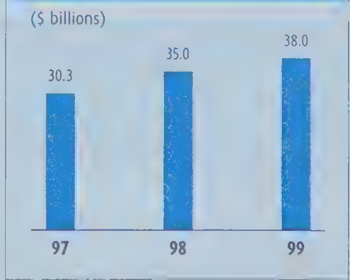
P&C Canada contributed $734 million to the net income for total P&C in 1999. Revenue growth of $114 million in 1999 was partly offset by expense growth of $89 million.

Revenue growth of 3.1% was generated by volume growth, partially offset by narrower spreads in the Canadian retail market. Volume growth, primarily from mortgages, commercial loans and commercial deposits, was driven by product and distribution initiatives coupled with continued client demand in response to favourable economic conditions. In addition, strong growth occurred in credit card operations and trust and other fee-related income, which included the $27 million gain from the sale of our Global Custody business.

Expense growth of 3.8% was driven by key investment and capacity-creating initiatives as well as technology. Key initiatives included customer knowledge management, organizational streamlining, automation of commercial and personal lending decisions, workflow innovation and migration of transactions to automated channels.

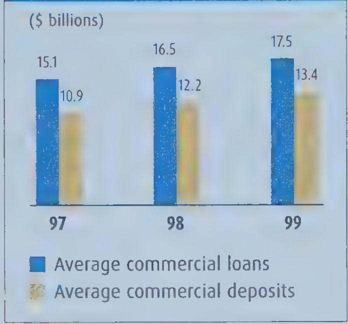
The provision for credit losses increased in line with the increased loan volume in 1999.

P&C – Canada Average Residential Mortgages*



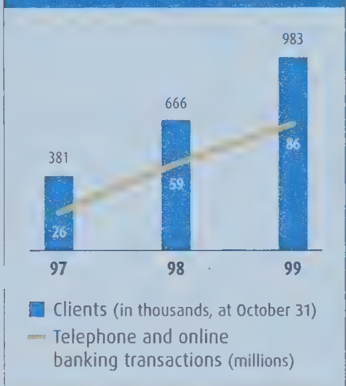
*Represents mortgage volumes in Mortgage line of business within P&C Canada.

P&C – Canada Commercial Portfolio*

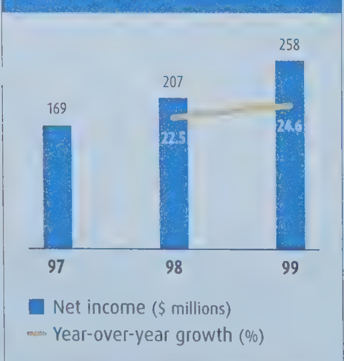


*Represents volumes in Small Business and Commercial Mid-Market lines of business within P&C – Canada.

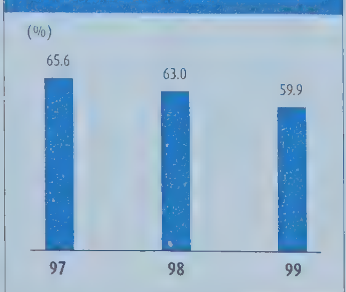
P&C – Canada Telephone and Online Banking



P&C – Harris Regional Banking Net Income



P&C – Harris Regional Banking Expense-to-Revenue Ratio



In 1998, net income for P&C Canada was $714 million, an increase of $24 million or 3.5% from 1997. Revenue growth of 0.7% was driven by strong loan volume and fee growth, offset in part by narrower spreads and forgone revenue following the sale of our U.S. card business. The card business sale also resulted in a lower provision for credit losses. The increase in expenses of 3.2% was primarily due to investment in our technology-related businesses.

Personal and Commercial Client Group – Canada ($ millions except as noted)

As at or for the year ended October 31	1999	1998*	1997*
Net interest income	**2,700**	2,666	2,701
Other income	**1,136**	1,056	994
Total Revenue	**3,836**	3,722	3,695
Provision for credit losses	**159**	159	241
Non-interest expense	**2,435**	2,346	2,273
Income before taxes and goodwill	**1,242**	1,217	1,181
Income taxes	**508**	503	491
Goodwill, net of applicable tax	**0**	0	0
Net Income	**734**	714	690
Average assets	**77,971**	72,861	65,649
Average current loans	**72,326**	67,414	60,239
Average deposits	**64,953**	66,700	63,327
Full-time equivalent staff	**16,045**	16,183	16,886
Expense-to-revenue ratio (%)	**63.5**	63.0	61.5

*Restated to give effect to the current year's organization structure and presentation changes

Outlook

Inflation, interest and unemployment rates are expected to remain low into 2000, thereby maintaining client demand for loans. However, the yield curve is expected to continue to flatten as a result of an expected rise in short-term interest rates, putting further pressure on net interest margin. In the year 2000, competition in Canada is expected to continue to increase, putting additional pressure on net interest margin. Despite these conditions, P&C Canada expects to retain profitable volume growth through the launch of product and distribution initiatives aimed at meeting the changing needs of its clients.

Personal and Commercial Client Group – Harris Regional Banking

Harris Regional Banking contributed net income of $258 million, up 24.5% over 1998. The growth in net income was driven by higher revenues and partially offset by an increase in non-interest expense and higher provisions.

Harris Regional Banking experienced revenue growth of 12.5% due to increased loan and deposit volumes. Community Banking contributed to the revenue growth with service charges, and Mid-Market Corporate Banking contributed with an increase in syndication, investment banking and other financing fees.

Non-interest expense growth of 6.9% was driven by a general increase in business volume and Year 2000 related expenses. This was partially offset by expense reductions from improved operating efficiencies in the Community Banking network and initiatives to provide clients with alternative delivery channels.

Net income of $207 million in 1998 rose 22.7% over 1997. This increase was driven by revenue growth of 24.0% due to increased loan volumes in Mid-Market Corporate Banking and Community Banking and growth in syndication fees and income from other client services. Non-interest expense increased $125 million or 23.1% in 1998 as a result of expanding banking operations and the resulting business growth.

Both revenues and expenses are affected by the U.S./Canadian dollar exchange rate because virtually all of Harris' business transactions are in U.S. dollars. These amounts are converted from U.S. dollars to Canadian dollars for reporting purposes. As a result, the movement in the exchange rate from an average rate of $1.38 in 1997 to an average rate of $1.47 for 1998 affects the comparison of 1998 results to those of 1997. If we

exclude the exchange rate impact, net income as well as revenue increased 14.8%, and non-interest expense increased 15.2%. The exchange rate impact was not significant in the 1999 versus 1998 comparisons.

Personal and Commercial Client Group – Harris Regional Banking ($ millions except as noted)

As at or for the year ended October 31	1999	1998*	1997*
Net interest income	**815**	761	652
Other income	**377**	299	203
Total Revenue	**1,192**	1,060	855
Provision for credit losses	**45**	36	13
Non-interest expense	**714**	668	543
Income before taxes, non-controlling interest in subsidiary and goodwill	**433**	356	299
Income taxes	**150**	129	118
Non-controlling interest in subsidiary	**16**	11	0
Goodwill, net of applicable tax	**9**	9	12
Net Income	**258**	207	169
Average assets	**33,706**	29,598	24,779
Average current loans	**18,693**	17,052	14,123
Average deposits	**21,716**	18,933	16,321
Full-time equivalent staff	**5,689**	5,925	5,815
Expense-to-revenue ratio (%)	**59.9**	63.0	63.5

*Restated to give effect to the current year's organization structure and presentation changes

Outlook

Despite expected spread compression in the United States, Harris Bank's Community Banking franchise is expected to sustain profitable growth in 2000 through a balanced growth and pricing strategy, while improving productivity. Our Mid-Market Corporate Banking franchise will serve its clients through a relationship advisory approach with a particular emphasis on delivering investment banking and capital markets solutions.

Personal and Commercial Client Group – Bancomer

Net income of $114 million increased $90 million from 1998. The increase was due to significantly higher net interest margins, combined with higher fee income, increased deposits, lower loan losses and the absence of trading losses as experienced by Bancomer in the Mexican equities market in 1998.

Net income and revenue from Bancomer declined $53 million from 1997 to 1998, primarily due to unsettled global economic conditions and slower growth in the Mexican economy.

Personal and Commercial Client Group – Bancomer ($ millions except as noted)

As at or for the year ended October 31	1999	1998*	1997*
Net interest income	**119**	29	82
Income taxes	**5**	5	5
Net Income	**114**	24	77
Average assets	**730**	722	668

*Restated to give effect to the current year's organization structure

Outlook

The Mexican economy has experienced an improved currency outlook, and both recent economic growth and a decline in inflation are expected to continue through 2000. As a leading Mexican bank, Bancomer is well-positioned to take advantage of market opportunities in the coming year.

Group Description:

The Private Client Group (PCG) brings together all of the Bank's wealth management capabilities in six lines of business: retail investment products, direct and full service investing, Canadian and U.S. private banking, and institutional asset management.

- Retail Investment Products includes the Bank's three families of mutual funds (53 funds in all). Term investment vehicles such as term deposits and guaranteed investment certificates will become part of PCG in fiscal 2000.
- The rapidly growing demand for direct investing services is met by InvestorLine Discount Brokerage in Canada, and by Harris Investors Direct in the United States.
- The Nesbitt Burns Private Client Division offers full-service investing, research, advisory and insurance services in a financial planning context. Nesbitt Burns has over 1,360 Investment Advisors across Canada who provide full-service investment advice.
- Harris Private Bank provides integrated banking, investment management and trust and estate services to its clientele in the United States.
- In Canada, banking, trust, and investment management services are offered to high net worth clients through 15 locations. These Private Client Service Centres, currently aligned with the Personal and Commercial Client Group, will become part of PCG in fiscal 2000.
- Jones Heward Investment Counsel and Harris Investment Management join forces to manage/advise the majority of the Bank's proprietary mutual funds, as well as pension funds, endowments and other large pools of capital on behalf of institutional investors.

Client Profile:

PCG serves four key North American market segments: the mainstream, affluent, high net worth and institutional markets. Clients in Canada and the United States are able to draw on the resources of the entire group to help meet their objectives for asset growth and preservation.

Many of PCG's services are available through a variety of channels: traditional in-person service at Private Client Service Centres, Bank of Montreal and Nesbitt Burns branch networks; call centres recognized for their exceptional service quality; and the Internet. The five investore retail outlets, and their 37-foot "store on wheels" counterpart, provide consumers with a unique environment to explore and experience new ways to manage their money.

Environmental Overview:

The creation of PCG is a robust response to the globalization of the market for investment services. PCG is committed to investing in innovative technology to continue to meet the explosive demands of its clients for anywhere, anyhow, anytime access and technology-supported information services. This investment will enhance and support PCG's focus on creating and sustaining personal relationships founded on expertise, trust, and a passionate commitment to doing what is right for each client.

Key Business Strategies and Accomplishments in 1999

At the Group level, the focus in 1999 was on developing a deep understanding of our clients' growing demands for expertise and flexibility, and laying the groundwork for the strategies that will realize the value inherent in the Bank's wealth management businesses. Individual businesses have formulated initiatives designed to enhance their product lines and improve access to their services.

Retail Investment Products

Continue to strengthen product line with "added-value" offerings:

- Introduced MatchMaker® Protection Feature, allowing mutual fund investors concerned about market fluctuations to protect 100% of their original investment in a MatchMaker strategic investment portfolio over ten years. Two new funds, the Monthly Income Fund and the International RSP Index Fund, bring the total number of First Canadian Funds to 30.

Make it easier for clients to understand and manage their investments:

- The First Canadian Funds call centre was ranked first quartile overall for customer communications and service in the DALBAR, Inc. survey of 23 mutual fund companies evaluated for the year ended September 30, 1999.
- Broadcast half-hour direct response TV programs on mutual fund investing and education savings.

Direct Investing

Achieve size needed to compete effectively in this rapidly globalizing business:

- Entered into an agreement to acquire Chicago-based Burke, Christensen & Lewis Securities. When combined with Harris Investors Direct, the new company will have nearly 45,000 clients and $4.2 billion in assets under administration. The acquisition is subject to regulatory approval and is expected to close in December 1999.
- In Canada, InvestorLine®, our direct brokerage, grew by nearly 40% in 1999 to 200,000 clients and almost $6 billion in assets under administration.

Improve electronic trading features and capacity, in the face of a dramatic shift in consumer preferences:

- Electronic transactions (web and IVR), first introduced in May 1997, accounted for 80% of transactions in 1999.
- InvestorLine was ranked #1 in online trading services by *Canadian Business* magazine's survey of direct brokerages.
- Enhanced electronic trading system to display online status of trades, and give the ability to change or cancel orders online.

®Registered trade mark of Bank of Montreal

Full-Service Investing

Provide leading-edge research, product and technology support to Investment Advisors for better client service:

- Nesbitt Burns' Economics team was ranked number one in Canada in the 1999 Brendan Wood International Survey (as was the Canadian equity research team). The Economics team is led by Chief Economist Sherry Cooper.
- Investment Advisors can now offer their clients an Education Planner and a Self-Directed RESP product. They are better able to serve their clients using an improved contact management system.

Offer innovative ways for clients to monitor their investment portfolios:

- Launched Nesbitt Burns Gateway®, a service that allows clients to view their accounts via the Internet, track model portfolios and more. Over 16,000 clients went online in the first nine months.
- Partnered with 724 Solutions and Bell Mobility in the introduction of Veev® wireless service, which provides "anywhere" access to banking and investment accounts to users of wireless devices such as palm computing devices.

Private Banking – Canada

Continue to expand capability to meet the wealth management needs of wealthy and affluent clients:

- Laid the groundwork for an integrated offering of wealth management services in Canada.
- Implemented a sophisticated computer-supported profiling process to better determine clients' individual investment objectives and risk tolerance.

Enhance profitability by achieving economies of scale in Canadian operations:

- Launched Agent for Executor service, to assist Bank clients who have been appointed as executors and are unable to fulfil their responsibilities or require additional expertise.
- In conjunction with Nesbitt Burns, introduced a package of back-office services (trade settlement, custodial and reporting services and trustee services) for independent Investment Counselors.

Private Banking – U.S.

Expand geographic reach of Private Bank offerings:

- Extended the Harris Private Bank business model through the Chicago-area community banking network.
- Through two joint marketing ventures with Bancomer, began providing wealthy and affluent Mexicans with high-quality banking products through Harris Bank in Chicago and through Harris Trust Bank of Arizona.
- Harris Private Bank became one of the first banks in the United States to provide its clients with the ability to monitor their investment portfolios and trust accounts online.

Introduce products tailored to meet clients' unique needs:

- A Premium Investment Program was implemented to serve clients who require a managed account under $1 million, consisting of multiple families of mutual funds and selected individual securities.
- A distinct product offering is now provided to all affluent and wealthy clients using Private Banking services.

Institutional Asset Management

Consistently achieve solid investment performance†:

- The majority of Harris Insight Funds (51% by assets) are in the top performance quartile‡ and 80% are in the top two quartiles‡ for the 12 months ended September 30, 1999.
- Four out of five Jones Heward Funds, managed by Jones Heward Investment Counsel, are top-two quartile‡ performers for the year ended September 30, 1999.
- Jones Heward and Harris Investment Management manage 91% of the assets of First Canadian Funds. Of those assets, 62% are in the first or second performance quartiles‡ for the year ended September 30, 1999.

†Past performance is not necessarily an indicator of future performance.
‡The quartile rankings are calculated by Lipper Analytical Services. Lipper Analytical Services calculate performance results of funds with similar objectives.
Nesbitt Burns Gateway is a trade mark of Nesbitt Burns Corporation Limited/La Corporation Nesbitt Burns Limitée, used under license.
Veev® is a trade mark of 724 Solutions Inc. (Bank of Montreal is an authorized user.)

Key Business Strategies for 2000

With the organizational groundwork for PCG in place, work on implementation of strategic initiatives will proceed during fiscal 2000. These initiatives were identified as offering the greatest opportunity for value creation, following a disciplined and intensive analysis of the PCG businesses, their position in the evolving competitive landscape, and the group's capability to capitalize on the market potential.

An overriding focus on meeting clients' growing demands for flexibility and expertise has shaped PCG's decisions to invest principally in people and technology. This focus is a foundation of PCG's business strategies for 2000. Essential elements of the strategies are to:

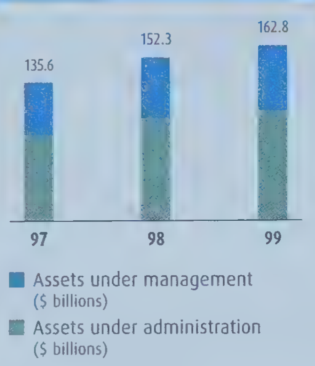
- Co-ordinate distribution channels to ensure clients are connected to the full range of specialists, products and access points required to meet their individual needs.
- Develop targeted value propositions based on well-researched insights into client behaviours and preferences.
- Consolidate the components of the business and adopt a North American focus.
- Position the group to achieve efficiencies by moving to common technology platforms and rationalizing products and operations.

PCG's initiatives in 2000 are designed to improve product and service offerings, operating strategies, and co-ordination of distribution channels serving the Canadian mainstream and affluent markets.

- A new Investment Funds Specialist sales force will operate within the branch network, with a mandate to assist clients to develop and implement an investment plan. Investment Funds Specialists will offer innovative new asset management products, proprietary deposit products and mutual funds, as well as selected third-party investment options.
- The mandate of the First Canadian Funds call centre will be expanded to include retail investment products. Full "virtual" integration with mbanx Direct is planned, ensuring that all clients have convenient access to the highest quality of investment service, products and advice.
- Additional Nesbitt Burns Investment Advisors will be hired and trained to provide retirement and investment planning/advice and insurance services.* Investment Advisors resident in the Bank's branches will work closely with Investment Funds Specialists to provide the full spectrum of wealth management services to clients.
- Clients with the most complex situations will be served by a co-ordinated, dedicated team of financial professionals offering an integrated array of customized products and services, including investment management, brokerage, trust, estate, tax planning, financing and banking.

*Insurance is offered through a separate subsidiary of Nesbitt Burns.

Assets under Management and Administration†



Financial Results

Net income of $92 million in 1999 represented a decline of $17 million or 15.2% from 1998 reflecting market volatility and investor uncertainty as a result of increasing interest rates in the United States. During the year, Nesbitt Burns changed its year end, resulting in the inclusion of one additional month of results in 1999 compared to 1998. The inclusion of an additional month of results accounts for an additional $56 million of revenues and $53 million of expenses, with a positive net income impact of $1.5 million. Notwithstanding challenging financial markets, assets under management and administration grew $11 billion or 6.9%.

Revenue, excluding the additional month, declined as a result of reduced commission revenue from Full-Service Investing as clients moved to relatively lower commission generating products in response to market volatility, and a decline in trading returns and management fees in the retail managed futures certificates of deposit program. These declines were partly offset by higher commission revenues from Direct Investing where market volatility generated incremental trading activity, as well as increased U.S. Private Banking volumes and continued growth in Retail Investment Products.

Non-interest expenses, excluding the additional month, increased due to costs incurred to support business growth in Retail Investment Products and Direct Investing, dedication of resources to the alignment of PCG's wealth management businesses, an increase in personnel related costs in the United States due to tight labour markets, as well as various non-recurring expense items including Year 2000 preparation costs. These increases were partially offset by productivity improvements in Full-Service Investing, as well as decreases in revenue-driven compensation associated with the retail managed futures program and Full-Service Investing.

1998 results relative to 1997 were positively affected by market conditions and growth in the Retail Investment Products and Institutional Asset Management businesses. First Canadian Funds and Jones Heward experienced increased fee revenue compared to 1997 due to higher volumes and a shift to longer-term assets.

Private Client Group ($ millions except as noted)

As at or for the year ended October 31	1999	1998*	1997*
Net interest income	**176**	207	141
Other income	**920**	851	849
Total Revenue	**1,096**	1,058	990
Provision for credit losses	**0**	0	0
Non-interest expense	**924**	867	814
Income before taxes and goodwill	**172**	191	176
Income taxes	**71**	74	75
Goodwill, net of applicable tax	**9**	8	8
Net Income	**92**	109	93
Average assets	**3,537**	4,013	3,201
Average current loans	**2,235**	1,980	1,519
Average deposits	**4,234**	3,718	3,534
Assets under administration†	**101,953**	95,218	86,180
Assets under management†	**60,820**	57,040	49,452
Full-time equivalent staff	**3,923**	3,909	3,280
Expense-to-revenue ratio (%)	**84.2**	81.9	82.2

*Restated to give effect to the current year's organization structure and presentation changes

Outlook

Looking forward, the Bank's newly aligned wealth management businesses, with a strong focus on enhanced client offerings, are expected to have a positive impact on revenue and asset growth in fiscal 2000. These gains may be tempered by market uncertainties surrounding the economy and interest rates.

†Defined in the glossary on page 104.

Group Description:

Following the Bank's organizational restructuring in 1999, the Investment Banking Group (IBG) was formed from businesses that previously resided in Investment & Corporate Banking and Portfolio & Risk Management, bringing together the capital-raising, advisory and investment activities that are undertaken on behalf of our larger corporate, government and institutional clients. IBG encompasses Investment & Corporate Banking, Capital Markets group, Merchant Banking, Securitization, Equity Research, Institutional Equities, Asset Portfolio Management, and Governments & International Financial Institutions, including Trade Finance. IBG provides a full range of financial products and services to institutional investors and corporate, government and institutional client segments.

Client Profile:

- The *Capital Markets* group comprises Global Distribution, High Yield, Foreign Exchange, International Money Market, Fixed Income, and Global Financial Products. The team offers financial solutions to North American corporate and institutional clients, and provides access to the North American market for selected European and Asian clients. Capital Markets also services the needs of our retail and commercial client base.
- The *Institutional Equities* team is the top trader and distributor of Canadian equities around the world. With over 45% of the international equity team located outside of Canada, the group has achieved the largest market share in all major international markets for Canadian equities.
- The *Asset Portfolio Management* group, through the application of sophisticated portfolio management techniques, manages corporate and institutional loans and securities portfolios, including the retained components of originated financing. The group also supports the origination efforts of the client coverage group, and manages credit risk taken by the Capital Markets group in its trading activities.
- The *Investment and Corporate Banking* group offers products that address the capital and advisory needs of our corporate, government and institutional clients. The team offers clients financial advisory services on issues ranging from mergers and acquisitions, divestitures, public takeover bids, and takeover defense to fairness opinions and valuations, and restructurings and recapitalizations.
- The *Securitization* group helps companies obtain inexpensive, efficient and flexible financing by using asset securitization vehicles. Some of the assets securitized include credit card receivables, oil and gas production payments, auto loans and mortgages.
- The *Merchant Banking* group is a private equity investment business with other ancillary services, which sources, structures and finances equity investments in growing North American companies.
- The *Research* group provides continuous fundamental and quantitative research coverage of all sectors in the Canadian equity market.
- The *Governments & International Financial Institutions* group actively manages relationships with government and international financial institutions segments, and also serves the needs of those corporate clients with international interests or Trade Finance requirements. The group offers products such as financing and operating services.

Environmental Overview:

The Investment Banking Group operates in an intensely competitive environment with an ever-increasing number of North American and global participants.

Global trends are putting increased pressure on all players to address their treasury and fixed income strategies. Major structural changes are underway, opening up international markets; the market environment is tightening; institutional investors are becoming increasingly sophisticated and enjoying growing market power; there is a commoditization of vanilla products and an increasing focus on credit; competition is intensifying in national markets from global bank and niche players; and electronic delivery channels are growing.

IBG invests heavily in both technology and professional development. As IBG continues to strengthen its specialized lines of business, the challenge is to deliver seamless cross-border products and services to clients in North America and selected international markets.

1999 Strategies and Accomplishments

The Capital Markets Group

- **Integrate and align businesses in order to create and provide integrated and high-value financing, investment and risk management solutions.**
- **Organize regionally to capitalize on the unique issuer and investor markets, their needs and behaviours, calibrating the balance between core underwriting, research, trading and sales functions and the non-underwriting product execution businesses within each region.**

- Completed the integration of the Capital Markets functions of Bank of Montreal with those of Nesbitt Burns, aligning all business operations and management structure.
- Rationalized and refocused our offshore operations.
- Leveraged our integrated approach to client/product coverage to participate in the largest-ever Canadian privatization deal (the $4 billion acquisition of Ontario's Highway 407, the world's first automated toll road, by a consortium of investors).

The Institutional Equities Group

- **Lead the Canadian institutional equity business in market share for all major international regions.**
- **Diversify beyond geographic reliance on Canada by expanding distribution into Europe and Asia.**
- **Expand equity derivatives business.**

- Achieved largest market share in all major international markets for Canadian equities business.
- The 1999 Brendan Wood International survey of institutional money managers ranked the Institutional Equities trading team first in market penetration and effectiveness in execution.
- Launched an OTC equity derivatives group.

Merchant Banking

- **Continue to establish an investment track record and provide good risk/return balance in equity investments.**

- Actively managed current investments while selectively pursuing and acquiring additional positions in growth companies.

The Investment and Corporate Banking Group

- **Increase alignment of services through the integration of Nesbitt Burns Investment Banking and the Bank of Montreal Corporate Banking groups.**
- **Develop greater structured and packaged product capability.**
- **Maintain leading position in Canadian underwriting and M&A businesses.**

- Completed the integration of the Investment and Corporate Banking groups, culminating in the successful execution of the Ontario Highway 407 project, a joint project requiring integrated execution by the investment banking, corporate banking and capital markets teams.
- Continued to be a leading underwriter of debt and equity issues in Canada.

Securitization

- **To be a leading Canadian provider of securitization products in Canada and the United States.**
- **Launch asset conduits.**

- Successfully launched the U.K. high-grade asset conduit named Links. The launch was innovative in that there have been only a few institutions in the world that have structured a similar vehicle. Third-party capital subscriptions were strong, illustrating our ability to entice outside parties to invest in the vehicle.

Research

- **Maintain a leading position in Canadian research.**

- Ranked number one for investment research by the 1999 Brendan Wood International survey, confirming that the Research team is a recognized leader in the provision of equity research.

Strategies for 2000:

On September 28, 1999, the Investment Banking Group received Board approval to undertake its new business strategy. The strategy is one of growth and is based upon a two-pronged approach.

The first prong of the strategy has a North American focus. In Canada, the Investment Banking Group will strengthen its leading competitive position across all sectors, while continuing to reduce capital deployed in less profitable activities. In the United States, the Group will build on existing strengths by focusing on the needs of two sectors – energy and media/communications. Over time, the focus will expand to additional sectors.

The second prong of the strategy builds on key product capabilities and strengths within the Investment Banking Group. The capability-based businesses include Credit Portfolio Management, Securitization and Merchant Banking. These businesses offer the Group the opportunity to increase fee-based revenue, while minimizing the need for capital investment.

Financial Results

Net income in the Investment Banking Group was $426 million for the year, an increase of $85 million or 24.9% from the prior year. During the year, Nesbitt Burns changed its year end, resulting in the inclusion of one additional month of results in 1999 compared to 1998. The inclusion of the extra month of results accounts for an additional $37 million in revenues and $20 million in expenses, with a positive net income impact of $9 million. Excluding the impact of the extra month, revenues were up by $264 million or 18.0% year over year, while expenses increased by $67 million or 7.6%. Revenue growth, excluding the extra month, was a result of volume growth and a return to more normal capital market conditions from those experienced in the fourth quarter of 1998, which resulted in higher trading revenues. Revenues were impacted by growth in corporate lending volumes and spreads, partially offset by the effects of lower primary market activities in new issues and mergers and acquisitions and lower net gains (losses) on securities.

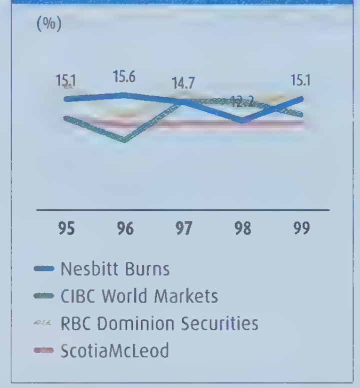
The provision for credit losses increased $87 million from a recovery of $16 million in 1998 to an expense of $71 million in 1999, representing a return to more normal levels following unusually high recoveries last year.

Expense growth of $67 million, excluding the extra month, was driven largely by revenue-based compensation costs.

In 1998 net income was $341 million, a decrease of $77 million or 18.4% from 1997. Revenues decreased 4.3% in 1998 as a result of abnormal market conditions, principally in our North American debt securities portfolios. Non-interest expense increased 9.5% in 1998 due to higher infrastructure costs, including Year 2000 expenditures, which were partially offset by decreased revenue-driven compensation.

Leading Institutional Equity Market Share

Underwriting Market Share



Investment Banking Group ($ millions except as noted)

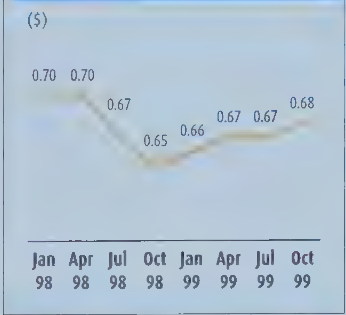
As at or for the year ended October 31	1999	1998*	1997*
Net interest income	**877**	669	602
Other income	**887**	794	926
Total Revenue	**1,764**	1,463	1,528
Provision for credit losses	**71**	(16)	2
Non-interest expense	**972**	885	808
Income before taxes and goodwill	**721**	594	718
Income taxes	**288**	246	293
Goodwill, net of applicable tax	**7**	7	7
Net Income	**426**	341	418
Average assets	**115,512**	123,264	100,954
Average current loans	**53,559**	48,884	37,676
Securities purchased under resale agreements	**29,114**	27,177	21,412
Average deposits	**55,296**	62,270	47,840
Assets under administration	**4,102**	4,089	NA
Assets under management	**2,907**	2,674	1,417
Full-time equivalent staff	**1,944**	2,117	2,511
Expense-to-revenue ratio (%)	**55.1**	60.5	51.8

*Restated to give effect to the current year's organization structure and presentation changes
NA – Not available

Outlook

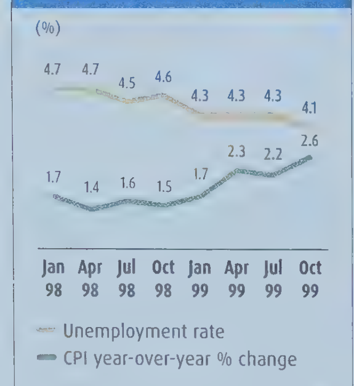
Canada's capital markets are expected to experience greater volatility in 2000 than in 1999 owing to growing concerns about inflation trends in the United States. Debt markets are expected to weaken amid moderate increases in interest rates in both Canada and the United States. Investment banking activity should remain firm in 2000. Business investment is expected to remain strong, thereby supporting the Bank's debt underwriting. As well, a rising stock market should lend support to equity underwriting. Bank lending to corporations should remain healthy in 2000, though somewhat softer than 1999. This reflects a view that the economy will grow at an above-average pace next year, though at a more moderate pace than this year. As a result of these economic considerations, the Investment Banking Group has made the organizational changes required to maintain current financial performance levels into 2000.

U.S./Canadian Dollar Exchange Rate



Canadian Inflation Rate

U.S. Unemployment Rate and Consumer Price Index (CPI)



Annual Growth in Gross Domestic Product (%)

(estimates for the year ending Dec. 31)	1999	2000
Canada	**3.8**	3.4
United States	**3.8**	3.3
Mexico	**3.2**	4.0

Annual Average Exchange Rates

(estimates for the year ending Dec. 31)	1999	2000
Cdn$/US$	**1.490**	1.488
Peso/US$	**9.63**	10.71

North American Economic Developments in 1999

The U.S. economy's strong momentum remained intact in 1999. Buoyed by solid growth in jobs, incomes and stock prices, consumer spending remained high. Home sales climbed to record levels, while auto sales accelerated. Business spending, especially on computer equipment, remained strong. The rising demand was met by higher imports, which contributed to a record trade deficit. The expansion – now in its ninth year – allowed the unemployment rate to drop to a 29-year low. In addition, inflation remains surprisingly low despite widespread worker shortages and rising energy prices. Nonetheless, interest rates have drifted higher in response to the recent tightening by the Federal Reserve.

Benefiting from strong U.S. demand, a low-valued currency and rising resource prices, the Canadian economy gathered momentum in 1999. Strengthening domestic demand complemented record-high exports. Home sales and construction trended up during the year. The expansion allowed the unemployment rate to fall to a nine-year low. Supported by rising commodity prices and better trade figures, the Canadian dollar has bounced back from last year's record lows against the U.S. dollar. The firmer currency helped to hold down interest rates in the face of rising U.S. rates. In addition, the Bank of Canada was reluctant to raise interest rates in an environment of tame price pressures.

Mexico's sound fundamentals allowed its economy to escape the turmoil that clouded Brazil's economic outlook early in the year. Exports were supported by robust U.S. demand. After depreciating earlier in the year, the peso has stabilized.

Economic Expectations for 2000

We expect U.S. economic growth to slow to 3.3% in 2000 in response to rising interest rates and slowing stock market gains. Inflation is expected to turn upwards due to emerging wage pressures. As a result, the Federal Reserve will likely lift interest rates further in 2000.

The Canadian economy is expected to slow to a moderate pace of 3.4% in 2000 in response to softer U.S. demand and modestly higher interest rates. The still solid pace of activity should allow the unemployment rate to drift towards 7%. Despite rising energy prices, Canadian inflation will likely remain subdued in 2000 as a result of spare capacity in the economy. Higher U.S. interest rates will likely weigh on the Canadian dollar and spur the Bank of Canada to lift interest rates modestly in the first half of the year.

We expect Mexico's economic momentum to carry into next year, though growth will be tempered by slower U.S. demand and political uncertainties. Inflation should continue to trend down, though remaining in double digits. Mexican financial markets will likely face greater variability due to an election in 2000. The peso is expected to depreciate given continued high inflation.

Supplemental Information

Table 1 Shareholder Value

For the year ended October 31	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Market Price per Common Share ($) (a)										
High	**69.600**	87.000	61.600	41.650	31.000	30.750	27.375	24.125	19.188	17.188
Low	**49.350**	51.750	39.050	29.375	24.125	22.000	21.313	18.563	13.250	12.250
Close	**56.650**	63.100	60.850	40.550	29.750	25.125	26.875	23.563	18.688	13.500
Common Dividends										
Dividends declared ($) (a)	**1.88**	1.76	1.64	1.48	1.32	1.20	1.12	1.06	1.06	1.06
Dividends paid ($) (a)	**1.85**	1.76	1.60	1.41	1.29	1.18	1.11	1.06	1.06	1.06
Dividend payout ratio (%)	**39.6**	37.4	35.0	35.1	38.2	40.3	43.3	44.7	46.0	50.7
Dividend yield (%)	**2.9**	2.9	3.9	4.7	5.1	4.4	4.7	5.7	7.9	6.2
Total Shareholder Return (TSR)										
TSR (%)	**(7.4)**	6.4	55.0	42.4	24.1	(2.3)	19.4	32.4	47.4	(14.4)
Five-year TSR (%)	**22.0**	23.3	26.1	22.2	23.1	14.3	20.6	19.8	9.1	4.4
Common Share Information (as at October 31)										
Number of common shares outstanding (in thousands) (a)										
As at	**267,032**	264,433	261,436	259,937	263,685	265,457	249,094	244,819	238,770	229,989
Average – basic	**265,862**	262,511	260,410	261,233	265,632	251,307	247,727	242,079	235,085	226,022
– fully diluted	**272,573**	269,048	268,700	268,362	273,919	256,496	252,634	245,131	235,085	226,022
Number of shareholder accounts	**49,369**	51,387	53,651	55,571	57,187	58,879	62,342	65,723	72,887	78,789
Total book value per common share ($) (a)	**34.87**	32.71	29.18	25.89	23.41	21.39	19.40	17.69	16.05	15.00
Total market value of common shares ($ billions)	**15.1**	16.7	15.9	10.5	7.8	6.7	6.7	5.8	4.5	3.1
Price-to-earnings ratio (times)	**11.9**	13.4	13.0	9.6	8.6	8.3	10.4	9.9	8.1	6.4
Market-to-book value (times)	**1.62**	1.93	2.09	1.57	1.27	1.17	1.39	1.33	1.16	0.90
Equity-to-assets ratio	**4.93**	5.00	4.36	4.56	4.74	4.85	4.93	4.80	4.65	4.54

Table 2 Earnings Growth ($ millions except as noted)

For the year ended October 31	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Income Statement										
Net interest income (TEB) (b)	**4,417**	4,152	4,186	3,711	3,564	3,325	3,207	3,038	2,734	2,575
Other income	**3,511**	3,118	2,981	2,516	2,102	1,871	1,654	1,404	1,261	1,078
Total revenues (TEB) (b)	**7,928**	7,270	7,167	6,227	5,666	5,196	4,861	4,442	3,995	3,653
Provision for credit losses	**320**	130	275	225	275	510	675	550	337	169
Non-interest expense	**5,288**	4,785	4,567	3,913	3,612	3,208	2,897	2,749	2,590	2,437
Income before provision for income taxes, non-controlling interest in subsidiary and goodwill	**2,320**	2,355	2,325	2,089	1,779	1,478	1,289	1,143	1,068	1,047
Provision for income taxes (TEB) (b)	**874**	938	954	866	746	627	555	483	452	506
Non-controlling interest in subsidiary	**21**	25	25	20	13	11	6	4	6	3
Net income before goodwill	**1,425**	1,392	1,346	1,203	1,020	840	728	656	610	538
Amortization of goodwill, net of applicable tax	**43**	42	41	35	34	15	19	16	15	16
Net income	**1,382**	1,350	1,305	1,168	986	825	709	640	595	522
Year-over-year growth (%)	**2.4**	3.5	11.7	18.4	19.5	16.4	10.9	7.5	13.9	nm
Earnings per Share (EPS) before Goodwill ($) (a)										
Basic	**4.92**	4.88	4.85	4.35	3.58	3.07	2.67	2.45	2.37	2.17
Fully diluted	**4.88**	4.81	4.77	4.26	3.51	3.03	2.63	2.43	2.37	2.17
Year-over-year growth (%)	**1.5**	0.8	12.0	21.4	15.8	15.2	8.2	2.5	9.2	nm
Earnings per Share (EPS) ($) (a)										
Basic	**4.76**	4.72	4.69	4.21	3.45	3.01	2.59	2.38	2.31	2.10
Fully diluted	**4.72**	4.66	4.62	4.13	3.38	2.97	2.55	2.36	2.31	2.10
Year-over-year growth (%)	**1.3**	0.9	11.9	22.2	13.8	16.5	8.1	2.2	10.0	nm
Cash earnings per Share (EPS) ($) (c)	**5.01**	4.98	4.97	4.44	3.67	3.15	2.73	NA	NA	NA

Table 3 Profitability ($ millions except as noted)

For the year ended October 31	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Net income	**1,382**	1,350	1,305	1,168	986	825	709	640	595	522
Preferred dividends	**117**	112	83	69	69	69	68	64	51	48
Net income available to common shareholders	**1,265**	1,238	1,222	1,099	917	756	641	576	544	474
Average common shareholders' equity	**8,976**	8,128	7,165	6,457	5,937	5,088	4,564	4,072	3,623	3,259
Return on common shareholders' equity (ROE) (%)	**14.1**	15.2	17.1	17.0	15.4	14.9	14.1	14.1	15.0	14.6
Return on average total equity (%)	**12.8**	13.8	15.8	16.0	14.5	13.9	13.1	13.2	14.2	13.9
Cash ROE (%) (d)	**15.9**	17.5	20.0	19.8	18.2	16.4	15.7	NA	NA	NA
Return on average assets (%)	**0.61**	0.59	0.66	0.74	0.68	0.68	0.63	0.61	0.63	0.64
Return on average assets available to common shareholders (%)	**0.56**	0.54	0.62	0.69	0.64	0.62	0.57	0.55	0.58	0.58

(a) Restated to reflect the effect of the two-for-one stock distribution completed in March 1993.
(b) Refer to the glossary on page 104 for a definition of the taxable equivalent basis (TEB) adjustment.
(c) Cash EPS is earnings per share as reported adjusted for the after-tax impact on earnings of non-cash goodwill and other valuation intangibles.
(d) Cash ROE is return on common shareholders' equity as reported adjusted for the after-tax impact on earnings and common shareholders' equity of non-cash goodwill and other valuation intangibles.

NA – Not available; nm – Not meaningful

Table 4 Total Revenue Detail ($ millions except as noted)

For the year ended October 31	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Total revenue (TEB) (a)	**7,928**	7,270	7,167	6,227	5,666	5,196	4,861	4,442	3,995	3,653
Year-over-year growth (%)	**9.0**	1.4	15.1	9.9	9.0	6.9	9.4	11.2	9.4	1.9
Net Interest Income										
Net interest income as reported	**4,279**	4,024	4,077	3,603	3,480	3,258	3,139	2,971	2,666	2,504
Taxable equivalent adjustment (TEB) (a)	**138**	128	109	108	84	67	68	67	68	71
Net interest income (TEB) (a)	**4,417**	4,152	4,186	3,711	3,564	3,325	3,207	3,038	2,734	2,575
Year-over-year growth (%)	**6.4**	(0.8)	12.8	4.1	7.2	3.7	5.6	11.1	6.2	0.2
Net interest income (TEB) (a)	**4,417**	4,152	4,186	3,711	3,564	3,325	3,207			
Less: Non-operating items										
Lesser-developed countries (LDC) interest income	**47**	17	121	73	79	141	156			
Trading interest income	**117**	93	36	9	23	23	76			
Interest income on impaired loans (excluding LDC)	**54**	45	129	43	22	35	40			
Operating net interest income (TEB) (a)	**4,199**	3,997	3,900	3,586	3,440	3,126	2,935			
Year-over-year growth (%)	**5.0**	2.5	8.8	4.2	10.0	6.6	3.8			
Margin										
Total average assets (b)	**226,714**	227,450	196,721	158,316	144,115	122,234	113,387	104,591	94,118	81,971
Average net interest margin (%)	**1.95**	1.83	2.13	2.34	2.47	2.72	2.83	2.90	2.91	3.14
Average operating net interest margin (%)	**1.85**	1.76	1.98	2.26	2.39	2.56	2.59			
Average Canadian dollar margin (%)	**2.82**	2.52	2.70	2.94	3.39	3.48	3.44	3.65	3.43	3.29
Average U.S. dollar and other currencies margin (%)	**1.19**	1.17	1.48	1.58	1.22	1.59	1.94	1.84	2.11	2.90
Other Income										
Deposit and payment service charges	**616**	558	508	473	451	437	430			
Lending fees	**329**	290	240	194	186	180	145			
Capital market fees	**841**	869	919	760	495	313	238			
Card services	**205**	196	251	234	230	211	208			
Investment management and custodial fees	**419**	407	299	221	240	197	194			
Mutual fund revenues	**207**	199	155	87	53	56	30			
Trading revenues	**295**	40	276	277	225	226	202			
Securitization revenues	**296**	158	32	0	0	0	0			
Other fees and commissions										
Revenue from insurance-related activities	**73**	62	62	44	36	51	18			
Gains (losses) on disposal of premises and equipment	**(1)**	7	(5)	(22)	(26)	(12)	4			
Foreign exchange revenues other than trading	**133**	103	126	120	99	89	48			
Investment securities gains (losses)	**(85)**	97	52	71	46	37	40			
Other	**183**	132	66	57	67	86	97			
Total other fees and commissions	**303**	401	301	270	222	251	207			
Total other income	**3,511**	3,118	2,981	2,516	2,102	1,871	1,654	1,404	1,261	1,078
Year-over-year growth (%)	**12.6**	4.6	18.5	19.7	12.3	13.1	17.8	11.4	16.9	5.8
Other income as a % of total revenue	**44.3**	42.9	41.6	40.4	37.1	36.0	34.0	31.6	31.5	29.5
Total other income	**3,511**	3,118	2,981	2,516	2,102	1,871	1,654			
Less: Non-operating items										
Total trading revenues	**295**	40	276	277	225	226	202			
Investment securities gains (losses)	**(85)**	97	52	71	46	37	40			
Non-recurring items (c)	**(29)**	1	0	0	0	0	0			
Operating other income	**3,330**	2,980	2,653	2,168	1,831	1,608	1,412			
Year-over-year growth (%)	**11.8**	12.3	22.5	18.4	13.8	13.9	13.7			
Other Information (units – as at October 31)										
Number of employees (d)	**32,844**	33,400	34,286	33,468	33,341	34,769	32,067	32,126	32,130	33,580
Number of bank branches	**1,198**	1,216	1,246	1,296	1,245	1,248	1,214	1,231	1,239	1,242
Number of automated banking machines (Canada)	**2,039**	2,069	2,035	2,017	1,763	1,708	1,538	1,293	1,221	1,163
Rates										
Average Canadian prime rate (%)	**6.49**	6.44	4.80	6.67	8.58	6.42	6.44	7.49	10.74	14.11
Average U.S. prime rate (%)	**8.00**	8.59	8.51	8.49	8.89	6.69	6.04	6.59	9.02	10.25
Canadian/U.S. dollar exchange rates ($) (e)										
High	**1.45**	1.40	1.33	1.34	1.33	1.29	1.24	1.12	1.12	1.13
Low	**1.56**	1.58	1.41	1.38	1.42	1.40	1.34	1.26	1.17	1.21
Average	**1.50**	1.46	1.37	1.37	1.38	1.36	1.29	1.19	1.15	1.17
End of period	**1.47**	1.54	1.41	1.34	1.34	1.35	1.32	1.24	1.12	1.17

(a) Refer to the glossary on page 104 for a definition of the taxable equivalent basis (TEB) adjustment.

(b) Daily averages for 1990 to 1999.

(c) Includes a $55 million write-down in the Bank's distressed investment portfolio and a $26.5 million gain on the sale of Global Custody, recorded in 1999. In certain circumstances, certain proceeds of sale may be recorded in future periods.

(d) This number constitutes full-time equivalent number of employees, comprising full-time, part-time and over-time employees.

(e) Rates are expressed in Canadian dollars. Rates are the noon buying rates in New York for cable transfer in U.S. dollars as certified for customs purposes by the Federal Reserve Bank of New York, i.e., "the Noon Buying Rate."

Table 5 Average Balances and Average Interest Rates of Assets and Liabilities ($ millions except as noted)

For the year ended October 31	1999 Average balances	1999 Average interest yield (%)	1999 Interest income	1998 Average balances	1998 Average interest yield (%)	1998 Interest income	1997 Average balances	1997 Average interest yield (%)	1997 Interest income
Assets									
Canadian Dollars									
Deposits with other banks	**1,442**	**5.08**	**73**	1,931	4.36	84	2,387	3.19	76
Securities	**13,730**	**6.17**	**847**	23,322	5.20	1,214	21,693	4.93	1,069
Loans									
Residential mortgages	**33,124**	**6.42**	**2,127**	33,945	6.58	2,233	30,415	6.88	2,091
Non-residential mortgages	**2,017**	**7.14**	**144**	1,801	7.16	129	1,621	7.86	128
Consumer instalment and other personal loans	**13,260**	**7.75**	**1,027**	12,575	7.64	960	11,389	6.76	769
Credit card loans	**932**	**10.20**	**95**	810	11.69	95	2,264	11.10	251
Loans to businesses and governments (a)	**24,881**	**6.81**	**1,694**	25,072	7.09	1,777	24,802	5.72	1,419
Total loans	**74,214**	**6.85**	**5,087**	74,203	7.00	5,194	70,491	6.61	4,658
Other non-interest bearing assets	**16,445**			11,053			10,191		
Total Canadian dollars	**105,831**	**5.68**	**6,007**	110,509	5.88	6,492	104,762	5.54	5,803
U.S. Dollar and Other Currencies									
Deposits with other banks	**21,116**	**4.71**	**996**	24,595	5.80	1,427	22,909	5.48	1,256
Securities	**26,781**	**6.49**	**1,738**	24,005	6.28	1,508	17,118	6.90	1,182
Loans									
Residential mortgages	**3,479**	**6.65**	**232**	3,033	7.36	223	2,009	7.66	154
Non-residential mortgages	**1,234**	**8.26**	**102**	965	8.47	83	671	8.42	56
Consumer instalment and other personal loans	**3,027**	**7.87**	**238**	2,883	8.45	243	2,404	8.49	204
Credit card loans	**22**	**4.04**	**1**	341	15.77	54	1,194	14.27	170
Loans to businesses and governments (a)	**53,620**	**7.46**	**3,998**	49,261	8.57	4,219	36,367	7.75	2,818
Total loans	**61,382**	**7.45**	**4,571**	56,483	8.54	4,822	42,645	7.98	3,402
Other non-interest bearing assets	**11,604**			11,858			9,287		
Total U.S. dollar and other currencies	**120,883**	**6.04**	**7,305**	116,941	6.63	7,757	91,959	6.35	5,840
Total All Currencies									
Total assets and interest income	**226,714**	**5.87**	**13,312**	227,450	6.27	14,249	196,721	5.92	11,643

For the year ended October 31	1999 Average balances	1999 Average interest cost (%)	1999 Interest expense	1998 Average balances	1998 Average interest cost (%)	1998 Interest expense	1997 Average balances	1997 Average interest cost (%)	1997 Interest expense
Liabilities									
Canadian Dollars									
Deposits									
Banks	**2,597**	**3.82**	**99**	3,638	4.57	166	3,468	2.99	104
Businesses and governments	**23,883**	**3.07**	**734**	26,895	3.75	1,009	19,901	1.35	269
Individuals	**43,943**	**3.19**	**1,400**	43,291	3.17	1,373	43,784	3.25	1,421
Total deposits	**70,423**	**3.17**	**2,233**	73,824	3.45	2,548	67,153	2.67	1,794
Subordinated debt and other interest bearing liabilities	**12,856**	**6.17**	**793**	19,086	6.11	1,165	21,599	5.49	1,184
Other non-interest bearing liabilities	**12,089**			8,159			8,080		
Total Canadian dollars	**95,368**	**3.17**	**3,026**	101,069	3.67	3,713	96,832	3.08	2,978
U.S. Dollar and Other Currencies									
Deposits									
Banks	**27,262**	**4.63**	**1,261**	30,105	5.53	1,664	25,457	5.35	1,362
Businesses and governments	**36,824**	**5.87**	**2,161**	34,202	7.25	2,480	26,156	5.67	1,483
Individuals	**16,152**	**4.17**	**673**	15,003	3.76	563	13,275	4.29	569
Total deposits	**80,238**	**5.10**	**4,095**	79,310	5.93	4,707	64,888	5.26	3,414
Subordinated debt and other interest bearing liabilities	**32,189**	**5.51**	**1,774**	27,867	6.02	1,677	19,693	5.41	1,065
Other non-interest bearing liabilities	**8,083**			9,398			7,034		
Total U.S. dollar and other currencies	**120,510**	**4.87**	**5,869**	116,575	5.48	6,384	91,615	4.89	4,479
Total All Currencies									
Total liabilities and interest expense	**215,878**	**4.12**	**8,895**	217,644	4.64	10,097	188,447	3.96	7,457
Shareholders' equity	**10,836**			9,806			8,274		
Total liabilities, interest expense and shareholders' equity	**226,714**	**3.92**	**8,895**	227,450	4.44	10,097	196,721	3.79	7,457
Net interest spread on average assets and net interest income		**1.95**	**4,417**		1.83	4,152		2.13	4,186

The above table presents daily average balances and average yield and cost on assets and liabilities on a taxable equivalent basis.
Refer to the glossary on page 104 for a definition of the taxable equivalent basis (TEB) adjustment.

(a) Includes securities purchased under resale agreements.

Table 6 Volume/Rate Analysis of Changes in Net Interest Income ($ millions)

	1999/1998			1998/1997		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
For the year ended October 31	Average balance	Average rate	Total	Average balance	Average rate	Total
Assets						
Canadian Dollars						
Deposits with other banks	**(21)**	**10**	**(11)**	(15)	23	8
Securities	**(500)**	**133**	**(367)**	81	64	145
Loans						
Residential mortgages	**(54)**	**(52)**	**(106)**	243	(101)	142
Non-residential mortgages	**15**	**0**	**15**	14	(13)	1
Consumer instalment and other personal loans	**52**	**15**	**67**	81	110	191
Credit card loans	**14**	**(14)**	**0**	(161)	5	(156)
Loans to businesses and governments (a)	**(12)**	**(71)**	**(83)**	14	344	358
Total loans	**15**	**(122)**	**(107)**	191	345	536
Change in Canadian dollar interest income	**(506)**	**21**	**(485)**	257	432	689
U.S. Dollar and Other Currencies						
Deposits with other banks	**(201)**	**(230)**	**(431)**	93	78	171
Securities	**174**	**56**	**230**	475	(149)	326
Loans						
Residential mortgages	**34**	**(25)**	**9**	78	(9)	69
Non-residential mortgages	**22**	**(3)**	**19**	27	0	27
Consumer instalment and other personal loans	**13**	**(18)**	**(5)**	40	(1)	39
Credit card loans	**(50)**	**(3)**	**(53)**	(121)	5	(116)
Loans to businesses and governments (a)	**373**	**(594)**	**(221)**	998	403	1,401
Total loans	**392**	**(643)**	**(251)**	1,022	398	1,420
Change in U.S. dollar and other currencies interest income	**365**	**(817)**	**(452)**	1,590	327	1,917
Total All Currencies						
Change in total interest income	**(141)**	**(796)**	**(937)**	1,847	759	2,606
Liabilities						
Canadian Dollars						
Deposits						
Banks	**(48)**	**(19)**	**(67)**	4	58	62
Businesses and governments	**(113)**	**(162)**	**(275)**	96	644	740
Individuals	**21**	**6**	**27**	(16)	(32)	(48)
Total deposits	**(140)**	**(175)**	**(315)**	84	670	754
Subordinated debt and other interest bearing liabilities	**(380)**	**8**	**(372)**	(138)	119	(19)
Change in Canadian dollar interest expense	**(520)**	**(167)**	**(687)**	(54)	789	735
U.S. Dollar and Other Currencies						
Deposits						
Banks	**(158)**	**(245)**	**(403)**	249	53	302
Businesses and governments	**189**	**(508)**	**(319)**	457	540	997
Individuals	**43**	**67**	**110**	74	(80)	(6)
Total deposits	**74**	**(686)**	**(612)**	780	513	1,293
Subordinated debt and other interest bearing liabilities	**260**	**(163)**	**97**	441	171	612
Change in U.S. dollar and other currencies interest expense	**334**	**(849)**	**(515)**	1,221	684	1,905
Total All Currencies						
Change in total interest expense	**(186)**	**(1,016)**	**(1,202)**	1,167	1,473	2,640
Change in total net interest income	**45**	**220**	**265**	680	(714)	(34)

The above table presents changes in net interest income, on a taxable equivalent basis, due to changes in either average daily balances (i.e., volume) or average rates. Refer to the glossary on page 104 for a definition of the taxable equivalent basis (TEB) adjustment.

(a) Includes securities purchased under resale agreements.

Table 7 Interest Rate Gap Position ($ millions)

As at October 31	0 to 3 months	4 to 6 months	7 to 12 months	Total within 1 year	Effective interest rate (%)	2 to 5 years	Effective interest rate (%)	Over 5 years	Effective interest rate (%)	Non-interest sensitive	Effective interest rate (%)	Total
Canadian Dollars												
Assets												
Cash resources	1,811	60	188	2,059	4.69	280	0.00	0	0.00	376	0.00	2,715
Securities	13,019	757	173	13,949	5.90	1,512	7.36	444	7.75	38	na	15,943
Loans	36,334	4,978	7,319	48,631	6.59	27,095	6.68	1,762	6.47	0	na	77,488
Other	12,244	256	211	12,711	na	1,688	na	0	na	1,523	na	15,922
Total assets	63,408	6,051	7,891	77,350		30,575		2,206		1,937		112,068
Liabilities												
Deposits	38,858	4,211	12,170	55,239	3.32	19,835	3.40	93	6.83	0	na	75,167
Subordinated debt	149	0	0	149	5.25	1,800	6.72	1,365	8.33	0	na	3,314
Other	19,280	108	167	19,555	2.61	1,361	0.09	(1)	0.00	2,059	na	22,974
Shareholders' equity	0	0	0	0	na	250	na	1,050	na	9,313	na	10,613
Total Liabilities and Shareholders' Equity	58,287	4,319	12,337	74,943		23,246		2,507		11,372		112,068
On-balance sheet gap position	5,121	1,732	(4,446)	2,407		7,329		(301)		(9,435)		0
Off-balance sheet gap position	(5,238)	(629)	(632)	(6,499)		3,713		2,786		0		0
Total Interest Rate Gap Position												
1999	**(117)**	**1,103**	**(5,078)**	**(4,092)**		**11,042**		**2,485**		**(9,435)**		**0**
1998	2,076	1,437	(7,771)	(4,258)		11,599		1,479		(8,820)		0
1997	(1,033)	516	(2,981)	(3,498)		10,159		988		(7,649)		0
1996	(5,776)	2,561	(183)	(3,398)		15,303		(267)		(11,638)		0
1995	(2,807)	868	(1,446)	(3,385)		12,948		857		(10,420)		0
U.S. Dollar and Other Currencies												
Assets												
Cash resources	15,720	1,864	5,495	23,079	5.36	1,199	0.96	268	0.00	(3,225)	0.00	21,321
Securities	9,839	1,484	1,796	13,119	6.35	6,823	6.20	6,483	6.74	905	na	27,330
Loans	49,821	3,276	1,502	54,599	5.94	4,601	6.90	1,171	7.38	142	na	60,513
Other	136	166	(346)	(44)	na	3,119	na	196	na	6,112	na	9,383
Total assets	75,516	6,790	8,447	90,753		15,742		8,118		3,934		118,547
Liabilities												
Deposits	58,000	10,084	5,394	73,478	4.71	5,667	1.33	2,562	0.70	0	na	81,707
Subordinated debt	515	0	0	515	5.71	0	0.00	883	6.95	0	na	1,398
Other	29,348	1,062	184	30,594	4.59	591	0.00	368	7.38	3,521	na	35,074
Shareholders' equity	0	0	0	0	0.00	368	na	0	na	0	na	368
Total Liabilities and Shareholders' Equity	87,863	11,146	5,578	104,587		6,626		3,813		3,521		118,547
On-balance sheet gap position	(12,347)	(4,356)	2,869	(13,834)		9,116		4,305		413		0
Off-balance sheet gap position	5,308	(3,408)	100	2,000		2,362		(4,362)		0		0
Total Interest Rate Gap Position												
1999	**(7,039)**	**(7,764)**	**2,969**	**(11,834)**		**11,478**		**(57)**		**413**		**0**
1998	(12,524)	731	3,258	(8,535)		7,680		520		335		0
1997	(19,243)	3,155	10,572	(5,516)		4,491		214		811		0
1996	(11,184)	2,821	5,924	(2,439)		1,689		852		(102)		0
1995	(4,910)	3,566	792	(552)		3,063		402		(2,913)		0

na – Not applicable

Gap Position

The determination of the interest rate sensitivity or "gap" position, which is based upon the earlier of the repricing or maturity date of assets, liabilities and derivatives used to manage interest rate risk, by necessity, encompasses numerous assumptions.

The gap position presented is as at October 31 of each respective year. It represents the position outstanding at the close of the business day and may change significantly in subsequent periods based upon customer preferences and the application of the Bank's asset and liability management policies.

The assumptions for 1999 are as follows:

Deposits/Liabilities

Interest bearing non-maturity deposits on which the interest rates have historically moved in reference to a specific interest rate basis, such as prime, and which are above the minimum interest committed are reported as interest sensitive in the 0 to 3 months category. Such deposits may be sensitive to declining rates only to the extent of the minimum interest rate committed. When they no longer demonstrate correlation with market interest rate movements, they are reported in time periods based on expected balance behaviour.

Investment certificates are reported based upon scheduled maturity without reference to early redemption or renewal options.

Term deposits are reported based upon scheduled maturity and estimated redemption based upon historical behaviour.

Fixed rate non-maturity liabilities and non-interest bearing non-maturity liabilities are reported based upon historical account balance behaviour.

Capital

Common Shareholders' Equity is reported as non-interest sensitive.

Assets

Fixed term assets such as residential mortgages and consumer loans are reported based upon the scheduled repayments and estimated prepayments based upon historical behaviour.

Trading assets are reported in the 0 to 3 months category.

Fixed rate non-maturity assets and non-interest bearing non-maturity assets are reported based upon historical balance behaviour.

Yields

Yields are based upon the contractual interest rate in effect for the assets or liabilities on the reporting date.

Prior to 1997, non-maturity assets and liabilities were reported as non-interest sensitive.

Table 8 Non-Interest Expenses and Expense-to-Revenue Ratios ($ millions except as noted)

For the year ended October 31	1999	1998*	1997*	1996*	1995*	1994*	1993*	1992*	1991*	1990*
Non-Interest Expense Summary										
Total non-interest expense	**5,288**	4,785	4,567	3,913	3,612	3,208	2,897	2,749	2,590	2,437
Less: Amortization of intangible assets	**21**	24	28	18	15	16	11	20	21	
Charges/non-recurring items (a)	**141**	0	75	23	60	71	0	18	24	
Total operating non-interest expense	**5,126**	4,761	4,464	3,872	3,537	3,121	2,886	2,711	2,545	
Year-over-year growth (%)										
Total	**10.5**	4.8	16.7	8.4	12.6	10.7	5.4	6.1	6.2	4.6
Operating	**7.7**	6.6	15.3	9.5	13.3	8.1	6.5	6.5	7.7	
Non-Interest Expense Detail										
Salaries	**2,532**	2,370	2,284	1,972	1,758	1,567	1,455	1,348	1,277	
Employee benefits	**288**	204	251	238	241	228	209	201	167	
Total salaries and employee benefits	**2,820**	2,574	2,535	2,210	1,999	1,795	1,664	1,549	1,444	
Premises and equipment										
Rental of real estate	**145**	147	149	139	136	125	123	114	101	
Premises, furniture and fixtures	**275**	256	234	215	206	188	177	170	179	
Property taxes	**52**	51	40	40	41	39	40	37	40	
Computers and equipment	**651**	518	493	333	296	248	240	234	215	
Total premises and equipment	**1,123**	972	916	727	679	600	580	555	535	
Communications	**268**	266	246	219	208	180	165	167	174	
Other expenses										
Business and capital taxes	**129**	134	128	116	110	95	92	82	64	
Professional fees	**343**	320	250	173	141	112	64	63	55	
Travel and business development	**227**	234	238	199	161	144	122	112	156	
Deposit insurance premiums (b)	**48**	75	73	94	84	76	62	55	48	
Other	**168**	186	153	157	155	119	137	146	93	
Total other expenses	**915**	949	842	739	651	546	477	458	416	
Amortization of intangible assets	**21**	24	28	18	15	16	11	20	21	
Special charge	**0**	0	0	0	0	71	0	0	0	
Business process improvement initiative charge	**0**	0	0	0	60	0	0	0	0	
Total non-interest expense before restructuring charge	**5,147**	4,785	4,567	3,913	3,612	3,208	2,897	2,749	2,590	2,437
Restructuring charge	**141**	0	0	0	0	0	0	0	0	
Total non-interest expense	**5,288**	4,785	4,567	3,913	3,612	3,208	2,897	2,749	2,590	2,437
Government Levies and Taxes (c)										
Government levies other than income taxes										
Payroll levies	**127**	128	123	109	106	95	88	83	72	
Property taxes	**52**	51	40	40	41	39	40	37	40	
Provincial capital taxes	**121**	120	104	89	84	71	71	59	42	
Business taxes	**8**	14	24	27	26	24	21	23	22	
Goods and services tax and sales tax	**118**	125	114	101	88	70	64	61	49	
Deposit insurance	**48**	75	73	94	84	76	62	55	48	
Total government levies other than income taxes	**474**	513	478	460	429	375	346	318	273	
Provision for income taxes reported in:										
Statement of income										
– Provision	**736**	810	845	758	662	560	487	416	384	
– Amortization of goodwill	**(6)**	(6)	(5)	(1)	0	0	0	0	0	
Statement of retained earnings	**158**	(237)	(92)	10	9	(23)	(46)	(70)	37	
Total income taxes	**888**	567	748	767	671	537	441	346	421	
Total government levies and taxes	**1,362**	1,080	1,226	1,227	1,100	912	787	664	694	
Total government levies and taxes as a % of net income before taxes and government levies	**52.6**	40.5	46.7	51.4	53.0	51.8	51.1	48.3	55.4	
Productivity Analysis										
Expense-to-revenue ratio (%)	**66.7**	65.8	63.7	62.8	63.7	61.7	59.6	61.9	64.8	66.7
Non-recurring revenue	**(29)**	1	0	0	0	0	0	6	(8)	
Adjusted expense-to-revenue ratio (%) (d)	**64.4**	65.5	62.3	62.2	62.4	60.1	59.4	61.1	63.6	

* Restated to give effect to presentation changes.

(a) The charge/non-recurring item in 1999 is a one-time restructuring charge, in 1997 is a charge for accelerated depreciation related to technology changes and credit process efficiency improvements, in 1996 is the Harris Savings Association Insurance Fund (SAIF) charge, in 1995 is the business process improvement initiative charge and in 1994 is the Harris special charge.

(b) Includes the SAIF charge.

(c) Government levies are included in various non-interest expense categories.

(d) The adjusted expense-to-revenue ratio excludes non-recurring expenses and other valuation intangibles from expenses and non-recurring revenues from total revenue.

NA – Not available

Table 9 Impaired Loans and Acceptances by Accounting Classification ($ millions)

As at or for the year ended October 31	**1999**	1998	1997	1996	1995
Gross impaired loans and acceptances, beginning of year	**824**	787	1,397	1,730	2,447
Additions to impaired loans and acceptances	**1,084**	621	660	959	806
Reductions in impaired loans and acceptances (a)	**(623)**	(389)	(936)	(948)	(1,073)
Net new additions (reductions)	**461**	232	(276)	11	(267)
Write-offs	**(193)**	(195)	(334)	(344)	(450)
Gross impaired loans and acceptances, end of year	**1,092**	824	787	1,397	1,730
Allowance for credit losses (ACL) (b), beginning of year	**1,166**	1,145	1,033	895	1,071
Increases – specific allowance	**290**	106	169	437	264
Increases – general allowance	**85**	110	200	0	125
Transfer of allowance	**0**	0	100	150	0
Write-offs (c)	**(193)**	(195)	(357)	(449)	(565)
Allowance for credit losses (b), end of year	**1,348**	1,166	1,145	1,033	895
Net impaired loans and acceptances (NIL), beginning of year	**(342)**	(358)	364	835	1,376
Change in gross impaired loans and acceptances	**268**	37	(610)	(333)	(717)
Change in allowance for credit losses	**(182)**	(21)	(112)	(138)	176
Net impaired loans and acceptances, end of year	**(256)**	(342)	(358)	364	835

Table 10 Balance Sheet Summary ($ millions)

As at October 31	**1999**	1998	1997	1996	1995	1994	1993	1992	1991	1990
Assets										
Cash resources	**24,036**	19,730	32,245	24,187	20,317	14,659	12,081	11,288	13,607	12,502
Securities	**43,273**	43,465	41,789	36,609	33,019	26,535	23,328	22,581	17,862	12,238
Loans (net)	**138,001**	129,691	114,918	98,413	88,442	88,634	74,028	68,251	60,172	55,106
Acceptances	**6,753**	6,944	5,594	4,397	4,469	3,430	3,555	2,878	3,712	3,508
Other assets	**18,552**	22,760	13,292	6,226	5,587	4,917	3,877	4,037	3,372	4,016
Total assets	**230,615**	222,590	207,838	169,832	151,834	138,175	116,869	109,035	98,725	87,370
Liabilities and Shareholders' Equity										
Deposits	**156,874**	143,983	144,212	119,262	109,605	98,241	87,859	86,601	77,769	70,170
Other liabilities	**58,048**	63,208	50,892	39,670	32,602	31,178	20,961	15,604	14,836	11,801
Subordinated debt	**4,712**	4,791	3,831	3,314	2,595	2,218	2,363	1,666	1,570	1,473
Share capital										
Preferred	**1,668**	1,958	1,274	857	858	860	852	832	718	475
Common	**3,190**	3,095	3,019	2,989	3,002	3,002	2,632	2,539	2,416	2,276
Retained earnings	**6,123**	5,555	4,610	3,740	3,172	2,676	2,202	1,793	1,416	1,175
Total liabilities and shareholders' equity	**230,615**	222,590	207,838	169,832	151,834	138,175	116,869	109,035	98,725	87,370
Average Balances										
Loans (d)	**135,596**	130,686	113,136	94,598	87,028	77,292	73,918	66,469	58,227	53,793
Assets (d)	**226,714**	227,450	196,721	158,316	144,115	122,234	113,387	104,591	94,118	81,971

Table 11 Unrealized Gains (Losses) on Securities and Reserves (e) ($ millions)

As at October 31	**1999**	1998	1997	1996	1995
Investment securities					
Government debt and other securities	**(330)**	315	293	148	156
Associated corporations	**(226)**	(190)	118	132	na
Designated lesser-developed countries (LDC)	**18**	65	102	195	299
	(538)	190	513	475	455
General allowance for credit losses	**970**	885	775	475	325

(a) Loans and acceptances returning to performing status, sales and repayments.
(b) Excludes ACL for off-balance sheet exposure. Also excludes LDC reservations in excess of impaired loans (1999 – $79 million, 1998 – $98 million, 1997 – $93 million, 1996 – $108 million, 1995 – $360 million).
(c) Write-offs on designated LDC include losses on sales of performing assets that were charged directly against the allowance (1999 – $0, 1998 – $0, 1997 – $3 million, 1996 – $109 million, 1995 – $115 million).
(d) Daily averages for 1990 to 1999.
(e) Unrealized gains and losses may be offset by structural positions and hedge contracts.
na – Not applicable

Table 12 Net Loans and Acceptances – Segmented Information ($ millions)

	Canada (a)					United States (a)					Mexico (a)				
As at October 31	**1999**	1998	1997	1996	1995	**1999**	1998	1997	1996	1995	**1999**	1998	1997	1996	1995
Individuals															
Residential mortgages (b)	**31,858**	29,823	30,995	26,539	23,412	**3,512**	3,502	2,594	1,926	1,490	**0**	0	0	0	0
Cards	**1,144**	783	877	2,528	2,357	**16**	14	1,035	1,314	1,482	**0**	0	0	0	0
Personal loans	**13,900**	12,988	12,007	10,739	10,365	**3,004**	3,098	2,664	2,058	1,388	**0**	0	0	0	0
Total loans to individuals	**46,902**	43,594	43,879	39,806	36,134	**6,532**	6,614	6,293	5,298	4,360	**0**	0	0	0	0
Commercial, corporate and institutional															
Diversified commercial	**25,083**	27,097	26,152	23,326	23,657	**38,507**	28,683	23,497	19,075	17,132	**362**	749	433	485	430
Securities purchased under resale agreements	**8,523**	6,350	7,679	6,960	4,772	**11,202**	13,715	10,721	7,121	5,733	**0**	0	0	0	0
Total commercial, corporate and institutional	**33,606**	33,447	33,831	30,286	28,429	**49,709**	42,398	34,218	26,196	22,865	**362**	749	433	485	430
General allowance	**(820)**	(735)	(625)	(425)	(275)	**(150)**	(150)	(150)	(50)	(50)	**0**	0	0	0	0
Designated lesser-developed countries	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Total net loans and acceptances	**79,688**	76,306	77,085	69,667	64,288	**56,091**	48,862	40,361	31,444	27,175	**362**	749	433	485	430

Table 13 Allowance for Credit Losses – Segmented Information ($ millions except as noted)

	Canada (a)					United States (a)					Mexico (a)				
As at October 31	**1999**	1998	1997	1996	1995	**1999**	1998	1997	1996	1995	**1999**	1998	1997	1996	1995
Allowance for credit losses (ACL), beginning of year	**868**	895	737	590	653	**268**	246	290	298	359	**0**	0	0	0	0
Provision for credit losses	**210**	77	330	156	171	**98**	38	(55)	69	104	**0**	0	0	0	0
Transfer of allowance	**0**	(17)	0	150	0	**0**	0	0	0	0	**0**	0	0	0	0
Recoveries	**22**	29	43	15	15	**25**	35	115	88	37	**0**	0	0	0	0
Write-offs (e)	**(131)**	(116)	(216)	(174)	(255)	**(47)**	(76)	(118)	(170)	(195)	**0**	0	0	0	0
Other, including foreign exchange	**(6)**	0	1	0	6	**(9)**	25	14	5	(7)	**0**	0	0	0	0
ACL, end of year	**963**	868	895	737	590	**335**	268	246	290	298	**0**	0	0	0	0
Allocation of Write-offs by Market															
Individuals	**(92)**	(60)	(106)	(90)	(74)	**(12)**	(33)	(96)	(60)	(50)	**0**	0	0	0	0
Commercial, corporate and institutional	**(39)**	(56)	(110)	(84)	(181)	**(35)**	(43)	(22)	(110)	(145)	**0**	0	0	0	0
Designated lesser-developed countries (LDC)	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Allocation of Recoveries by Market															
Individuals	**17**	16	11	15	17	**5**	7	10	11	14	**0**	0	0	0	0
Commercial, corporate and institutional	**5**	13	32	0	(2)	**20**	28	105	77	23	**0**	0	0	0	0
Designated LDC	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Net write-offs as a % of average loans and acceptances															

(a) Geographic location is based on the ultimate risk of the underlying asset. Provincial location is based on the booking location and/or customer residency.
(b) Excludes residential mortgages classified as commercial corporate loans (1999 – $2.8 billion, 1998 – $2.5 billion, 1997 – $2.0 billion, 1996 – $1.6 billion, 1995 – $1.5 billion).
(c) No provision for securities purchased under resale agreements.
(d) Excludes the general allowance.
(e) Write-offs on designated lesser-developed countries include losses on sales of performing assets that were charged directly against the allowance (1999 – $0, 1998 – $0, 1997 – $3 million, 1996 – $109 million, 1995 – $115 million).

	Other countries (a)					Total				
	1999	1998	1997	1996	1995	1999	1998	1997	1996	1995
	0	0	0	0	0	35,370	33,325	33,589	28,465	24,902
	0	0	0	0	0	1,160	797	1,912	3,842	3,839
	0	0	0	0	3	16,904	16,086	14,671	12,797	11,756
	0	0	0	0	3	53,434	50,208	50,172	45,104	40,497
	3,072	3,378	2,665	1,453	1,272	67,024	59,907	52,747	44,339	42,491
	5,365	7,455	117	0	0	25,090	27,520	18,517	14,081	10,505
	8,437	10,833	2,782	1,453	1,272	92,114	87,427	71,264	58,420	52,996
	0	0	0	0	0	(970)	(885)	(775)	(475)	(325)
	205	288	263	211	230	205	288	263	211	230
	8,642	11,121	3,045	1,664	1,505	144,783	137,038	120,924	103,260	93,398

As at October 31	1999	1998	1997	1996	1995
Net Loans and Acceptances in Canada by Province (a)					
Atlantic provinces	4,137	4,250	3,815	3,466	3,304
Quebec	12,304	11,714	10,179	10,237	10,610
Ontario	37,317	34,421	38,456	35,240	30,971
Prairie provinces	13,941	13,741	13,133	10,174	9,628
British Columbia and Territories	12,809	12,915	12,127	10,975	10,050
Total loans and acceptances in Canada (d)	80,508	77,041	77,710	70,092	64,563
Diversified Commercial by Industry					
Financial institutions	13,598	9,468	8,854	8,620	7,217
Commercial mortgages	6,254	5,626	4,552	3,542	3,378
Construction (non-real estate)	1,782	1,056	1,011	949	886
Commercial real estate	3,632	3,601	3,034	2,737	3,404
Manufacturing	12,785	12,460	9,267	7,163	7,064
Mining/Energy	4,011	4,086	4,058	3,003	2,431
Service industries	6,944	6,600	6,407	5,667	5,401
Retail trade	3,217	2,556	2,752	2,319	2,574
Wholesale trade	3,984	3,912	3,408	2,739	2,565
Agriculture	2,772	2,471	2,036	1,719	1,910
Transportation/Utilities	3,880	3,686	3,227	2,338	2,031
Communications	1,994	2,200	2,332	2,368	2,013
Other	2,171	2,185	1,809	1,175	1,617
Total diversified commercial	67,024	59,907	52,747	44,339	42,491

	Other countries (a)					Total				
	1999	1998	1997	1996	1995	1999	1998	1997	1996	1995
	136	98	116	367	484	1,272	1,239	1,143	1,255	1,496
	12	15	0	0	0	320	130	275	225	275
	0	17	0	(150)	0	0	0	0	0	0
	0	0	0	0	0	47	64	158	103	52
	(15)	(3)	(23)	(105)	(115)	(193)	(195)	(357)	(449)	(565)
	(4)	9	5	4	(2)	(19)	34	20	9	(3)
	129	136	98	116	367	1,427	1,272	1,239	1,143	1,255
	0	0	0	0	0	(104)	(93)	(202)	(150)	(124)
	0	0	0	0	0	(74)	(99)	(132)	(194)	(326)
	(15)	(3)	(23)	(105)	(115)	(15)	(3)	(23)	(105)	(115)
	0	0	0	0	0	22	23	21	26	31
	0	0	0	0	0	25	41	137	77	21
	0	0	0	0	0	0	0	0	0	0
						0.1	0.1	0.2	0.3	0.6

Provision for Credit Losses – Segmented Information

For the year ended October 31	1999	1998	1997	1996	1995
Individuals					
Residential mortgages	7	7	7	6	3
Cards	26	26	138	96	67
Personal loans	48	30	32	23	26
Total individuals	81	63	177	125	96
Diversified commercial					
Financial institutions	7	12	(26)	62	2
Commercial mortgages	0	0	1	5	2
Construction (non-real estate)	3	3	0	3	2
Commercial real estate	(6)	(66)	(146)	(61)	17
Manufacturing	27	7	8	20	(2)
Mining/Energy	30	(3)	(24)	(18)	17
Service industries	46	(19)	19	43	13
Retail trade	6	(5)	0	9	(10)
Wholesale trade	10	1	7	8	1
Agriculture	2	(5)	7	3	0
Transportation/Utilities	8	20	(11)	16	(4)
Communications	5	13	36	0	(2)
Other	16	(1)	27	10	18
Total commercial, corporate and institutional (c)	154	(43)	(102)	100	54
Net charge to earnings for general provision	85	110	200	0	125
Designated lesser-developed countries	0	0	0	0	0
Total provision for credit losses	320	130	275	225	275

Table 14 Allocation of Allowance for Credit Losses – Segmented Information ($ millions except as noted)

	Canada (a)					United States (a)					Mexico (a)				
As at October 31	**1999**	1998	1997	1996	1995	**1999**	1998	1997	1996	1995	**1999**	1998	1997	1996	1995
Individuals															
Residential mortgages	**4**	4	9	9	6	**0**	0	0	0	0	**0**	0	0	0	0
Consumer instalments and other personal loans	**5**	4	5	9	8	**3**	5	6	6	9	**0**	0	0	0	0
Total individuals	**9**	8	14	18	14	**3**	5	6	6	9	**0**	0	0	0	0
Diversified commercial (b)	**134**	125	255	292	301	**182**	113	90	234	239	**0**	0	0	0	0
General allowance	**820**	735	625	425	275	**150**	150	150	50	50	**0**	0	0	0	0
Designated lesser-developed countries (LDC)															
Specific allowance	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Country risk allowance	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Off-balance sheet	**0**	0	1	2	0	**0**	0	0	0	0	**0**	0	0	0	0
Allowance for credit losses (ACL)	**963**	868	895	737	590	**335**	268	246	290	298	**0**	0	0	0	0
Coverage Ratios															
ACL as a % of gross impaired loans and acceptances (GIL)	**145.0**	170.9	169.3	91.9	78.2	**104.7**	118.6	96.9	49.2	30.8	**0.0**	0.0	0.0	0.0	0.0
ACL as a % of GIL (c)															
Individuals	**4.8**	5.4	10.8	10.8	12.5	**100.0**	100.0	100.0	100.0	100.0	**0.0**	0.0	0.0	0.0	0.0
Diversified commercial (b)	**28.0**	34.6	64.1	46.1	46.9	**57.4**	51.1	36.3	40.1	24.9	**0.0**	0.0	0.0	0.0	0.0
Designated LDC (d)	**na**	na	na	na	na	**na**	na	na	na	na	**na**	na	na	na	na

Table 15 Net Impaired Loans and Acceptances – Segmented Information ($ millions except as noted)

	Canada (a)					United States (a)					Mexico (a)				
As at October 31	**1999**	1998	1997	1996	1995	**1999**	1998	1997	1996	1995	**1999**	1998	1997	1996	1995
Individuals															
Residential mortgages	**129**	105	94	122	66	**0**	0	0	0	0	**0**	0	0	0	0
Consumer instalments and other personal loans	**48**	34	22	27	32	**0**	0	0	0	0	**0**	0	0	0	0
Total individuals	**177**	139	116	149	98	**0**	0	0	0	0	**0**	0	0	0	0
Diversified commercial (b)	**344**	236	143	341	341	**135**	108	158	349	721	**10**	0	0	0	0
General allowance	**(820)**	(735)	(625)	(425)	(275)	**(150)**	(150)	(150)	(50)	(50)	**0**	0	0	0	0
Designated lesser-developed countries (LDC)	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0
Total net impaired loans and acceptances (NIL)	**(299)**	(360)	(366)	65	164	**(15)**	(42)	8	299	671	**10**	0	0	0	0
Condition Ratios															
Gross impaired loans and acceptances (GIL) as a % of equity and allowance for credit losses	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA	**NA**	NA	NA	NA	NA
NIL as a % of net loans and acceptances	**(0.38)**	(0.47)	(0.47)	0.09	0.26	**(0.03)**	(0.09)	0.02	0.95	2.47	**2.76**	0.00	0.00	0.00	0.00
NIL as a % of net loans and acceptances (e)															
Individuals	**0.38**	0.32	0.26	0.37	0.27	**0.00**	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00
Diversified commercial	**1.37**	0.87	0.55	1.46	1.44	**0.35**	0.38	0.67	1.82	4.21	**2.76**	0.00	0.00	0.00	0.00
Designated LDC	**0.00**	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00

(a) Geographic location is based on the ultimate risk of the underlying asset.
(b) No allowance or impaired exposure for securities purchased under resale agreements.
(c) Segment ACL as a percentage of segment GIL.
(d) Excludes LDC reservations in excess of impaired loans (1999 – $79 million, 1998 – $98 million, 1997 – $93 million, 1996 – $108 million, 1995 – $360 million).
(e) Segmented NIL as a percentage of segment net loans and acceptances.
(f) Includes allowance of U.S. subsidiary in excess of impaired loans.

na – Not applicable
NA – Not available

Other countries (a)					Total				
1999	1998	1997	1996	1995	**1999**	1998	1997	1996	1995
0	0	0	0	0	**4**	4	9	9	6
0	0	0	0	0	**8**	9	11	15	17
0	0	0	0	0	**12**	13	20	24	23
44	24	0	0	0	**360**	262	345	526	540
0	0	0	0	0	**970**	885	775	475	325
0	0	0	1	0	**0**	0	0	1	0
85	104	98	115	367	**85**	104	98	115	367
0	8	0	0	0	**0**	8	1	2	0
129	136	98	116	367	**1,427**	1,272	1,239	1,143	1,255
131.6	142.2	100.0	100.0	100.0	**130.6**	153.3	157.2	81.7	72.5
0.0	0.0	0.0	0.0	0.0	**6.3**	8.6	14.7	13.9	19.0
47.8	28.6	0.0	0.0	0.0	**40.1**	39.3	53.4	43.2	33.7
100.0	100.0	100.0	100.0	100.0	**100.0**	100.0	100.0	100.0	100.0

As at October 31	**1999**	1998	1997	1996	1995
Diversified Commercial Specific Allowance by Industry					
Financial institutions	**35**	27	28	62	24
Commercial mortgages	**4**	5	6	11	17
Construction (non-real estate)	**4**	4	23	6	11
Commercial real estate	**28**	35	71	148	274
Manufacturing	**37**	62	44	34	19
Mining/Energy	**44**	4	8	22	45
Service industries	**56**	31	56	57	45
Retail trade	**7**	8	19	33	23
Wholesale trade	**8**	13	12	10	7
Agriculture	**6**	4	12	5	2
Transportation/Utilities	**26**	20	8	18	7
Communications	**13**	8	15	0	0
Other	**92**	41	43	120	66
Total diversified commercial specific allowance (b)	**360**	262	345	526	540

Other countries (a)					Total				
1999	1998	1997	1996	1995	**1999**	1998	1997	1996	1995
0	0	0	0	0	**129**	105	94	122	66
0	0	0	0	0	**48**	34	22	27	32
0	0	0	0	0	**177**	139	116	149	98
48	60	0	0	0	**537**	404	301	690	1,062
0	0	0	0	0	**(970)**	(885)	(775)	(475)	(325)
0	0	0	0	0	**0**	0	0	0	0
48	60	0	0	0	**(256)**	(342)	(358)	364	835
NA	NA	NA	NA	NA	**8.53**	6.66	7.65	15.71	20.48
0.56	0.54	0.00	0.00	0.00	**(0.18)**	(0.25)	(0.30)	0.35	0.89
0.00	0.00	0.00	0.00	0.00	**0.33**	0.28	0.23	0.33	0.24
1.56	1.78	0.00	0.00	0.00	**0.80**	0.67	0.57	1.56	2.50
0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00

As at October 31	**1999**	1998	1997	1996	1995
Diversified Commercial Net Impaired Loans by Industry					
Financial institutions	**23**	8	1	59	1
Commercial mortgages	**19**	15	24	39	50
Construction (non-real estate)	**3**	4	6	3	2
Commercial real estate	**54**	122	148	463	846
Manufacturing	**48**	41	19	21	27
Mining/Energy	**188**	36	30	37	67
Service industries	**127**	47	44	40	33
Retail trade	**21**	17	9	30	17
Wholesale trade	**7**	9	9	38	22
Agriculture	**18**	15	12	18	23
Transportation/Utilities	**64**	71	11	35	23
Communications	**25**	23	5	1	0
Other (d) (f)	**(60)**	(4)	(17)	(94)	(49)
Total diversified commercial (b)	**537**	404	301	690	1,062

Table 16 Risk-Weighted Assets ($ millions except as noted)

As at October 31	Balance	Credit risk equivalent	Risk weighting %	1999 Risk-weighted balance	1998 Risk-weighted balance
Balance sheet items					
Cash resources	**24,036**		**0-20**	**4,609**	3,732
Securities	**43,273**		**0-100**	**9,918**	11,346
Mortgages	**41,624**		**0-100**	**12,791**	11,179
Other loans and acceptances	**103,130**		**0-100**	**67,160**	66,135
Other assets	**18,552**		**0-100**	**6,490**	8,419
Total balance sheet items	**230,615**			**100,968**	100,811
Off-balance sheet items					
Guarantees and standby letters of credit	**13,218**	**11,411**	**0-100**	**8,515**	9,385
Securities lending	**9,818**	**4,479**	**0-100**	**977**	567
Documentary and commercial letters of credit	**731**	**146**	**0-100**	**115**	120
Commitments to extend credit:					
Original maturity of one year and under	**70,073**	**0**	**0**	**0**	0
Original maturity of over one year	**32,534**	**16,267**	**0-100**	**15,677**	16,737
Derivative financial instruments	**1,170,533**	**12,448**	**0-50**	**3,990**	4,072
Note issuance and revolving underwriting facilities	**0**	**0**	**0-50**	**0**	6
Total off-balance sheet items	**1,296,907**			**29,274**	30,887
Total risk-weighted assets – credit risk				**130,242**	131,698
Total risk-weighted assets – market risk (a)				**6,722**	8,084
Total risk-weighted assets				**136,964**	139,782
Total risk-weighted assets – U.S. basis				**142,955**	146,151

Table 17 Liquid Assets ($ millions except as noted)

As at October 31	**1999**	1998	1997	1996	1995	1994	1993	1992	1991	1990
Canadian Dollar Liquid Assets										
Deposits with other banks	**843**	1,080	3,110	2,839	3,002	2,790	1,762	1,394	1,762	3,126
Other cash resources	**817**	745	702	631	17	651	734	967	1,494	849
Securities	**15,942**	17,216	22,442	22,651	21,245	16,915	16,436	15,251	11,725	6,278
Total Canadian dollar liquid assets	**17,602**	19,041	26,254	26,121	24,264	20,356	18,932	17,612	14,981	10,253
U.S. Dollar and Other Currencies Liquid Assets										
Deposits with other banks	**21,279**	16,334	26,946	18,606	16,418	11,029	8,476	8,120	9,327	7,688
Other cash resources	**1,097**	1,571	1,487	2,111	880	189	1,109	807	1,024	839
Securities	**27,331**	26,249	19,347	13,958	11,774	9,620	6,892	7,330	6,137	5,960
Total U.S. dollar and other currencies liquid assets	**49,707**	44,154	47,780	34,675	29,072	20,838	16,477	16,257	16,488	14,487
Total liquid assets	**67,309**	63,195	74,034	60,796	53,336	41,194	35,409	33,869	31,469	24,740
Total liquid assets-to-total assets (%)	**29.2**	28.4	35.6	35.8	35.1	29.8	30.3	31.1	31.9	28.3
Pledged assets included in total liquid assets	**39,872**	41,437	36,594	31,959	24,473	24,733	NA	NA	NA	NA

(a) Changes to the capital adequacy guidelines require risk-weighted balances to include market risk. Market risk is the risk of loss in on- and off-balance sheet positions arising from movements in market rates and prices. Market risk risk-weighted assets also incorporates the risk associated with on-balance sheet trading positions. Therefore, the risk-weighted on-balance sheet items are reduced by the on-balance sheet trading positions.

NA – Not available

Table 18 Average Deposits ($ millions except as noted)

	1999		1998		1997	
	Average balance	Average rate paid (%)	Average balance	Average rate paid (%)	Average balance	Average rate paid (%)
Deposits Booked in Canada						
Demand deposits – interest bearing	**3,987**	**3.84**	3,753	3.98	3,271	3.37
Demand deposits – non-interest bearing	**5,837**	**0.00**	5,342	0.00	4,705	0.00
Payable after notice	**23,725**	**1.88**	22,855	1.82	23,086	1.04
Payable on a fixed date	**48,137**	**4.76**	53,843	4.97	47,432	4.51
Total Deposits Booked in Canada	**81,686**	**3.54**	85,793	3.78	78,494	3.17
Deposits Booked in the U.S. and Other Countries						
U.S. demand deposits	**12,560**	**3.37**	13,354	3.70	10,594	3.07
Other U.S. deposits payable after notice or on a fixed date	**32,381**	**6.14**	27,211	7.67	19,520	6.32
Deposits booked in other countries	**24,034**	**4.27**	26,776	5.35	23,433	4.95
Total Average Deposits	**150,661**	**4.20**	153,134	4.74	132,041	3.94

As at October 31, 1999, 1998 and 1997, deposits by foreign depositors in our Canadian bank offices amounted to $9,934 million, $11,241 million and $11,242 million respectively. As at October 31, 1999, 1998 and 1997, total deposits payable after notice included $14,262 million, $12,840 million and $12,048 million respectively of chequing accounts which would have been classified as demand deposits under U.S. reporting requirements. As at October 31, 1999, 1998 and 1997, total deposits payable on a fixed date included $26,632 million, $33,738 million and $28,582 million respectively of federal funds purchased and commercial paper issued. These amounts would have been classified as short-term borrowings for U.S. reporting purposes.

Table 19 Quarterly Financial Data ($ millions)

As at or for the three months ended	Oct. 31 1999	July 31 1999	April 30 1999	Jan. 31 1999	Oct. 31* 1998	July 31* 1998	April 30* 1998	Jan. 31* 1998
Statement of Income								
Total interest income	**3,270**	**3,232**	**3,192**	**3,480**	3,615	3,697	3,470	3,339
Total interest expense	**2,179**	**2,174**	**2,115**	**2,427**	2,667	2,650	2,466	2,314
Net interest income	**1,091**	**1,058**	**1,077**	**1,053**	948	1,047	1,004	1,025
Provision for credit losses (PCL)	**80**	**80**	**80**	**80**	(5)	45	45	45
Net interest income after PCL	**1,011**	**978**	**997**	**973**	953	1,002	959	980
Other income	**884**	**933**	**849**	**845**	632	834	875	777
Non-interest expense	**1,501**	**1,284**	**1,271**	**1,232**	1,220	1,208	1,195	1,162
Income before provision for income taxes	**394**	**627**	**575**	**586**	365	628	639	595
Provision for income taxes	**120**	**213**	**196**	**207**	119	229	243	219
Income before non-controlling interest in subsidiary, and goodwill	**274**	**414**	**379**	**379**	246	399	396	376
Non-controlling interest in subsidiary	**4**	**5**	**5**	**7**	4	9	8	4
Income before goodwill	**270**	**409**	**374**	**372**	242	390	388	372
Amortization of goodwill, net of applicable tax	**12**	**11**	**10**	**10**	8	12	11	11
Net income (a)	**258**	**398**	**364**	**362**	234	378	377	361
Taxable equivalent adjustment (b)	**33**	**34**	**35**	**36**	36	32	31	29
Total revenue (TEB)	**2,008**	**2,025**	**1,961**	**1,934**	1,616	1,913	1,910	1,831

*Restated to give effect to presentation changes.

(a) Refer to note (j) on page 72.
(b) Refer to the glossary on page 104 for a definition of the taxable equivalent basis (TEB) adjustment.

Table 20 Quarterly Financial Measures

As at or for the three months ended	Oct. 31 1999	July 31 1999	April 30 1999	Jan. 31 1999	Oct. 31* 1998	July 31* 1998	April 30* 1998	Jan. 31* 1998
Information per Common Share ($)								
Dividends declared	**0.47**	**0.47**	**0.47**	**0.47**	0.44	0.44	0.44	0.44
Earnings before goodwill								
Basic	**0.91**	**1.42**	**1.30**	**1.29**	0.80	1.37	1.38	1.33
Fully diluted	**0.90**	**1.41**	**1.29**	**1.28**	0.79	1.35	1.36	1.31
Earnings								
Basic (j)	**0.87**	**1.38**	**1.26**	**1.25**	0.77	1.32	1.34	1.29
Fully diluted (j)	**0.86**	**1.37**	**1.25**	**1.24**	0.76	1.31	1.32	1.27
Cash EPS	**0.93**	**1.44**	**1.32**	**1.32**	0.82	1.40	1.40	1.36
Book value	**34.87**	**34.91**	**33.53**	**33.09**	32.71	32.41	31.01	30.34
Market price								
High	**56.700**	**61.300**	**69.000**	**69.600**	73.750	84.400	87.000	74.000
Low	**49.350**	**52.550**	**60.300**	**55.800**	51.750	73.600	67.600	57.250
Close	**56.650**	**54.900**	**60.800**	**66.750**	63.100	73.650	78.000	67.100
Primary Financial Measures (%)								
Five-year total shareholder return (a)	**22.0**	**22.6**	**23.4**	**21.6**	23.3	27.0	30.6	30.2
Return on common shareholders' equity (b)	**9.8**	**16.2**	**15.5**	**15.1**	9.4	16.7	18.0	17.3
Fully diluted earnings per share growth (c)	**13.2**	**4.6**	**(5.3)**	**(2.4)**	(26.9)	0.0	18.9	9.5
Revenue growth	**24.2**	**5.8**	**2.7**	**5.6**	(13.2)	2.6	10.1	7.3
Expense-to-revenue ratio (d)	**74.8**	**63.4**	**64.8**	**63.7**	75.5	63.1	62.6	63.5
Provision for credit losses as a % of average loans and acceptances (e)	**0.23**	**0.22**	**0.23**	**0.22**	0.09	0.13	0.14	0.14
Gross impaired loans and acceptances as a % of equity and allowance for credit losses (f)	**8.53**	**8.56**	**8.36**	**7.28**	6.66	5.67	6.11	6.26
Tier 1 ratio** (g)	**7.72**	**7.87**	**7.73**	**7.41**	7.26	7.32	7.16	6.67
Cash and securities-to-total assets (h)	**29.2**	**28.6**	**28.3**	**28.6**	28.4	31.5	32.9	33.6
Credit rating (i)	**AA–**	**AA–**	**AA–**	**AA–**	AA–	AA–	AA–	AA–
Equity-to-assets ratio	**4.9**	**5.1**	**5.1**	**4.9**	5.0	4.8	4.9	4.3

*Restated to give effect to presentation changes.

**As at April 30, 1998 and January 31, 1998 the capital ratios reflect the inclusion of $250 million Class B preferred shares issued May 15, 1998 and $400 million Class B preferred shares issued February 26, 1998 respectively. Excluding these issues, the Tier 1 ratios as at April 30, 1998 and January 31, 1998 would be 6.97% and 6.38% respectively. The total capital ratios would be 9.91% and 9.06% respectively.

(a) Five-year compounded return for one bank common share invested at the beginning of the period, including dividend reinvestment.
(b) Annualized quarterly net income less preferred dividends divided by average common shareholders' equity (which includes common share capital plus retained earnings).
(c) Percentage change in fully diluted earnings per share for the quarter over the corresponding quarter of the previous year.
(d) Non-interest expense divided by total revenue (TEB).
(e) Annual provision for credit losses divided by average net loans, acceptances and loan substitutes.
(f) Gross impaired loans divided by total equity and allowance for credit losses.
(g) Tier 1 capital divided by risk-weighted assets as defined by the Superintendent of Financial Institutions Canada.
(h) Cash and securities divided by total assets.
(i) Composite of Moody's and Standard & Poor's debt ratings.
(j) On July 16, 1999, the CICA Emerging Issues Committee issued for prospective application an Abstract setting out requirements for the accounting for corporate transactions costs, including proposed mergers. Had the requirements of the Abstract been retroactively applied to the costs of the proposed merger with Royal Bank which were charged to retained earnings, net income would have been reduced by $25 million to $337 million for the quarter ended January 31, 1999 and $1,357 for the year ended October 31, 1999. Earnings per share would have been reduced by $0.09 per share to $1.16 basic and $1.15 fully diluted for the quarter ended January 31, 1999 and $4.67 basic and $4.63 fully diluted for the year ended October 31, 1999.

In the opinion of Bank of Montreal management, information that is derived from unaudited financial information, including information as at and for the interim periods, contains all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Financial ratios for interim periods are stated on an annualized basis where appropriate, and such ratios, as well as interim operating results, are not necessarily indicative of actual results for the full fiscal year.

Consolidated Financial Statements

This section of the Annual Report presents our Consolidated Financial Statements for the year ended October 31, 1999, Statement of Management's Responsibility for Financial Information and Shareholders' Auditors' Report.

The audited Consolidated Financial Statements present our financial condition as at October 31, 1999 and 1998 and results of our operations for the years ended October 31, 1999, 1998 and 1997. The accompanying Notes to Consolidated Financial Statements provide further financial detail and include the significant accounting policies underlying the financial information reported.

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Consolidated Balance Sheet

As at October 31 (Canadian $ in millions)	1999	1998
Assets		
Cash Resources (note 2)	**$ 24,036**	$ 19,730
Securities (notes 3 & 5)		
Investment (market value $25,487 in 1999 and $24,460 in 1998)	**26,027**	24,313
Trading	**17,246**	18,791
Loan substitutes	**–**	361
	43,273	43,465
Loans (notes 4, 5 & 6)		
Residential mortgages	**38,189**	35,847
Consumer instalment and other personal loans	**16,912**	16,095
Credit card loans	**1,160**	797
Loans to businesses and governments	**57,998**	50,598
Securities purchased under resale agreements	**25,090**	27,520
	139,349	130,857
Allowance for credit losses	**(1,348)**	(1,166)
	138,001	129,691
Other		
Customers' liability under acceptances	**6,753**	6,944
Premises and equipment (note 7)	**2,228**	2,311
Other assets (note 8)	**16,324**	20,449
	25,305	29,704
Total Assets	**$ 230,615**	$ 222,590
Liabilities and Shareholders' Equity		
Deposits (note 10)		
Banks	**$ 30,398**	$ 26,256
Businesses and governments	**65,459**	58,064
Individuals	**61,017**	59,663
	156,874	143,983
Other Liabilities (note 11)		
Acceptances	**6,753**	6,944
Securities sold but not yet purchased	**10,450**	7,843
Securities sold under repurchase agreements	**24,177**	29,758
Other	**16,668**	18,663
	58,048	63,208
Subordinated Debt (note 12)	**4,712**	4,791
Shareholders' Equity		
Share capital (note 13)	**4,858**	5,053
Retained earnings	**6,123**	5,555
	10,981	10,608
Total Liabilities and Shareholders' Equity	**$ 230,615**	$ 222,590

The accompanying notes to consolidated financial statements are an integral part of this statement.

F. Anthony Comper
Chairman and Chief Executive Officer

Jeremy H. Reitman
Chairman, Audit Committee

Consolidated Statement of Income

For the Year Ended October 31 (Canadian $ in millions except per share amounts)	1999	1998	1997
Interest, Dividend and Fee Income			
Loans	$ 9,656	$ 10,015	$ 8,058
Securities (note 3)	2,449	2,595	2,144
Deposits with banks	1,069	1,511	1,332
	13,174	14,121	11,534
Interest Expense			
Deposits	6,328	7,254	5,208
Subordinated debt	339	331	293
Other liabilities	2,228	2,512	1,956
	8,895	10,097	7,457
Net Interest Income	4,279	4,024	4,077
Provision for credit losses	320	130	275
Net Interest Income After Provision for Credit Losses	3,959	3,894	3,802
Other Income			
Deposit and payment service charges	616	558	508
Lending fees	329	290	240
Capital market fees	841	869	919
Card services	205	196	251
Investment management and custodial fees	419	407	299
Mutual fund revenues	207	199	155
Trading revenues	295	40	276
Securitization revenues (note 6)	296	158	32
Other fees and commissions	303	401	301
	3,511	3,118	2,981
Net Interest and Other Income	7,470	7,012	6,783
Non-Interest Expense			
Salaries and employee benefits	2,820	2,574	2,535
Premises and equipment	1,123	972	916
Communications	268	266	246
Other expenses	915	949	842
	5,126	4,761	4,539
Amortization of intangible assets (note 8)	21	24	28
	5,147	4,785	4,567
Restructuring charge (note 14)	141	–	–
Total non-interest expense	5,288	4,785	4,567
Income Before Provision for Income Taxes, Non-Controlling Interest in Subsidiaries and Goodwill	2,182	2,227	2,216
Income taxes (note 15)	736	810	845
	1,446	1,417	1,371
Non-controlling interest	21	25	25
Net Income Before Goodwill	1,425	1,392	1,346
Amortization of goodwill, net of applicable income tax (notes 8 & 15)	43	42	41
Net Income	$ 1,382	$ 1,350	$ 1,305
Preferred dividends	$ 117	$ 112	$ 83
Net income before goodwill available to common shareholders	$ 1,308	$ 1,280	$ 1,263
Net income available to common shareholders	$ 1,265	$ 1,238	$ 1,222
Average common shares outstanding (in thousands)	265,862	262,511	260,410
Net Income Per Common Share Before Goodwill (note 16)			
Basic	$ 4.92	$ 4.88	$ 4.85
Fully diluted	4.88	4.81	4.77
Net Income Per Common Share (note 16)			
Basic	4.76	4.72	4.69
Fully diluted	4.72	4.66	4.62
Dividends Per Common Share	1.88	1.76	1.64

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statement of Changes in Shareholders' Equity

For the Year Ended October 31 (Canadian $ in millions)				1999	1998	1997
Preferred Shares (note 13)						
Balance at beginning of year				**$ 1,958**	$ 1,274	$ 857
Proceeds from the issue of preferred shares				**–**	650	400
Redemption of preferred shares				**(272)**	–	–
Translation adjustment on shares issued in a foreign currency				**(18)**	34	17
Balance at End of Year				**1,668**	1,958	1,274
	Number of Shares					
	1999	1998	1997			
Common Shares (note 13)						
Balance at beginning of year	**264,433,198**	261,436,344	259,937,006	**3,095**	3,019	2,989
Issued under the Shareholder Dividend Reinvestment and Share Purchase Plan	**523,641**	399,155	–	**31**	29	–
Issued under the Stock Option Plan	**674,500**	269,600	290,000	**21**	9	8
Issued on the exchange of shares of subsidiary corporations	**1,400,761**	2,328,099	1,209,338	**43**	38	22
Balance at End of Year	**267,032,100**	264,433,198	261,436,344	**3,190**	3,095	3,019
Retained Earnings						
Balance at beginning of year				**5,555**	4,610	3,740
Net income				**1,382**	1,350	1,305
Dividends – Preferred shares				**(117)**	(112)	(83)
– Common shares				**(500)**	(463)	(427)
Unrealized gain (loss) on translation of net investment in foreign operations, net of hedging activities and applicable income tax				**(172)**	178	81
Costs of proposed merger, net of applicable income tax				**(25)**	–	–
Share issue expense, net of applicable income tax				**–**	(8)	(6)
Balance at End of Year				**6,123**	5,555	4,610
Total Shareholders' Equity				**$ 10,981**	$ 10,608	$ 8,903

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statement of Cash Flow

For the Year Ended October 31 (Canadian $ in millions)	1999	1998	1997
Cash Flows from Operating Activities			
Net income	**$ 1,382**	$ 1,350	$ 1,305
Adjustments to determine net cash flows			
Provision for credit losses	**320**	130	275
Amortization of premises and equipment	**412**	318	348
Amortization of intangible assets	**32**	35	39
Amortization of goodwill	**49**	48	46
Write-down of investment securities	**93**	–	–
Restructuring charge	**128**	–	–
Future income tax expense	**(82)**	16	(116)
Net (gain) on sale of investment securities	**(8)**	(97)	(52)
Change in accrued interest			
(Increase) decrease in interest receivable	**344**	(387)	(318)
Increase (decrease) in interest payable	**84**	137	(66)
Net increase (decrease) in deferred loan fees	**(28)**	50	(1)
Net (increase) decrease in unrealized gains and amounts receivable on derivative contracts	**2,957**	(5,897)	(6,569)
Net increase (decrease) in unrealized losses and amounts payable on derivative contracts	**(3,104)**	5,687	6,446
Net (increase) decrease in trading securities	**1,545**	4,066	(3,813)
Net increase (decrease) in current income taxes payable	**608**	(391)	71
Changes in other items and accruals, net	**(396)**	(1,980)	738
Net Cash Provided by (Used in) Operating Activities	**4,336**	3,085	(1,667)
Cash Flows from Financing Activities			
Net increase (decrease) in deposits	**12,891**	(229)	24,950
Net increase (decrease) in securities sold but not yet purchased	**2,607**	(2,461)	(3,412)
Net increase (decrease) in securities sold under repurchase agreements	**(5,581)**	8,369	5,866
Net increase (decrease) in liabilities of subsidiaries	**1,282**	(1,166)	570
Proceeds from issuance of subordinated debt	**–**	1,090	1,000
Repayment of subordinated debt	**(10)**	(235)	(535)
Proceeds from issuance of preferred shares	**–**	650	400
Redemption of preferred shares	**(272)**	–	–
Proceeds from issuance of common shares	**95**	76	30
Dividends paid	**(617)**	(575)	(510)
Costs of proposed merger	**(25)**	–	–
Net Cash Provided by Financing Activities	**10,370**	5,519	28,359
Cash Flows Used in Investing Activities			
Net increase (decrease) in interest bearing deposits with banks	**4,849**	(12,826)	8,753
Purchase of investment securities	**32,422**	55,474	45,803
Maturities of investment securities	**(21,173)**	(21,746)	(18,310)
Proceeds from sales of investment securities	**(9,525)**	(28,081)	(26,161)
Net increase in loans and loan substitute securities	**11,193**	15,548	14,327
Proceeds from securitization of assets	**(494)**	(9,650)	(2,000)
Net increase (decrease) in securities purchased under resale agreements	**(2,430)**	9,003	4,436
Premises and equipment – net purchases	**329**	571	539
Goodwill acquired	**3**	–	–
Acquisition of an interest in an associated corporation	**75**	–	–
Net Cash Used in Investing Activities	**15,249**	8,293	27,387
Net Increase (Decrease) in Cash and Cash Equivalents	**(543)**	311	(695)
Cash and Cash Equivalents at Beginning of Year	**2,962**	2,651	3,346
Cash and Cash Equivalents at End of Year	**$ 2,419**	$ 2,962	$ 2,651
Represented by:			
Cash and non-interest bearing deposits with Bank of Canada and other banks	**$ 1,261**	$ 1,478	$ 1,681
Cheques and other items in transit, net	**1,158**	1,484	970
	$ 2,419	$ 2,962	$ 2,651
Supplemental Disclosure of Cash Flow Information			
Amount of interest paid in the year	**$ 8,811**	$ 9,960	$ 7,523
Amount of income taxes paid in the year	**361**	942	793

The accompanying notes to consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements (Canadian $ in millions, unless otherwise stated)

Note 1 Basis of Presentation

We prepare our consolidated financial statements in accordance with Canadian generally accepted accounting principles including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada.

In addition, our consolidated financial statements comply with the disclosure requirements of United States generally accepted accounting principles. The more significant differences in consolidated total assets, total liabilities or net income arising from applying United States generally accepted accounting principles are described in note 23.

Basis of Consolidation

We conduct business through a variety of corporate structures, including subsidiaries, joint ventures and associated corporations. Subsidiaries are those where we exercise control through our ownership of the majority of the voting shares.

In some instances, we exert significant influence, but not control, over a corporation. Our investment in these associated corporations is recorded as a component of securities in our Consolidated Balance Sheet. Our proportionate share of the net income or loss is recognized in interest, dividend and fee income in our Consolidated Statement of Income. The amount is net of adjustments for goodwill that arose at the time we acquired our interest in the associated corporation.

All significant intercompany transactions and balances are eliminated.

Trust assets under administration are maintained separately from our assets and are not included in our Consolidated Balance Sheet.

Translation of Foreign Currencies

We conduct business in a variety of foreign currencies and report our consolidated financial statements in Canadian dollars. Assets and liabilities related to foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. The income and expense amounts related to these transactions are translated using the average exchange rate for the year. The realized and unrealized gains and losses arising from these translations are included in other income in our Consolidated Statement of Income.

We have various investments in foreign operations which are denominated in foreign currencies. Unrealized gains and losses arising from translating investments into Canadian dollars are included in shareholders' equity in our Consolidated Balance Sheet. All realized translation gains and losses related to our foreign operations are recognized in other income.

From time to time, we enter into foreign exchange hedge contracts to reduce our exposure to changes in the value of foreign currencies. The gain or loss on the translation of the hedge contract is offset against the realized or unrealized gain or loss on the translation of the item being hedged and is included in other income or retained earnings.

Use of Estimates

In preparing our consolidated financial statements we must make estimates and assumptions, mainly concerning values, which affect reported amounts of assets, liabilities, net income and related disclosures. Actual results could differ from these estimates.

Specific Accounting Policies

To facilitate a better understanding of our consolidated financial statements we have disclosed our significant accounting policies throughout the following notes with the related financial disclosures by major caption.

Changes in Accounting Policies

New accounting policies issued by standard setters are described in notes 8, 15 and 17.

Note 2 Cash Resources

Deposits with Banks

Deposits with banks are recorded at cost and include acceptances which we have purchased that have been issued by other banks. Interest income earned on these deposits is recorded on an accrual basis.

Cheques and Other Items in Transit, Net

Cheques and other items in transit are recorded at cost and represent the net position of the uncleared cheques and other items in transit between us and other banks.

	1999	1998
Cash and non-interest bearing deposits with Bank of Canada and other banks	**$ 1,261**	$ 1,478
Interest bearing deposits with banks	**21,617**	16,768
Cheques and other items in transit, net	**1,158**	1,484
Total	**$ 24,036**	$ 19,730

Cash Restrictions

We have a number of banking subsidiaries whose cash is available for use in their own business and may not be used by other related corporations.

Some of our subsidiaries are also required to maintain reserves or minimum balances with central banks in their respective countries of operation. Restricted cash resources amounted to $401 as at October 31, 1999 and $327 as at October 31, 1998.

Note 3 Securities

Securities are divided into three components, each with a different purpose and accounting treatment. The three types of securities we hold are as follows:

- **Investment securities** are comprised of equity and debt securities that we purchase with the intention of holding until maturity or until market conditions, such as a change in interest rates, provide us with a better investment opportunity. Equity securities are recorded at cost and debt securities at amortized cost. When we identify a decline in value that is other than temporary, the affected securities are written down to their fair value. Any write-downs or gains and losses on the disposal of our investment securities are recorded in the year they occur and are included in our Consolidated Statement of Income as either an increase or decrease in other income. Gains and losses on disposal are calculated using the average cost of the securities sold. Investment securities of designated countries are accounted for in accordance with our accounting policy for loans which is described in note 4.
- **Trading securities** are securities that we purchase for resale over a short period of time. We report these securities at their market value and record the mark-to-market adjustments and any gains and losses on the sale of these securities in our Consolidated Statement of Income in other income.
- **Loan substitute securities** are customer financings, such as distressed preferred shares, that we structure as after-tax investments to provide our customers with an interest rate advantage over what would otherwise be applicable on a conventional loan. We record these securities on the same basis as loans as described in note 4.

We did not own any securities issued by a single non-government entity where the book value, as at October 31, 1999 or October 31, 1998, was greater than 10% of our shareholders' equity.

	Term to maturity										1999		1998
	Within 1 year		1 to 3 years		3 to 5 years		5 to 10 years		Over 10 years		Total book value		Total book value
Investment Securities		Yield %		Yield %		Yield %		Yield %		Yield %		Yield %	
Issued or guaranteed by:													
Canadian federal government	$ 1,817	4.91	$ 213	5.74	$ 121	6.02	$ –	–	$ –	–	$ 2,151	5.05	$ 1,848
Canadian provincial and municipal governments	24	5.51	181	6.20	–	–	–	–	–	–	205	6.12	302
U.S. federal government	2,499	5.02	133	5.78	1,034	5.42	909	5.43	–	–	4,575	5.21	2,988
U.S. states, municipalities and agencies	2,955	5.29	2,344	6.03	101	6.32	410	6.66	365	6.05	6,175	5.72	5,629
Designated countries	–	–	–	–	–	–	–	–	29	21.24	29	21.24	42
Other governments	24	4.84	63	5.10	15	6.02	3	5.71	141	7.50	246	6.51	177
Mortgage-backed securities and collateralized mortgage obligations	–	–	145	6.55	–	–	–	–	3,378	6.40	3,523	6.41	2,852
Corporate debt	252	6.18	663	6.98	920	6.58	3,421	7.37	1,111	6.69	6,367	7.05	8,201
Corporate equity													
Associated corporations	–	–	–	–	–	–	–	–	856	–	856	–	709
Other	194	9.03	456	9.18	263	9.19	329	7.51	658	2.73	1,900	6.64	1,565
Total investment securities	7,765	5.24	4,198	6.51	2,454	6.33	5,072	6.97	6,538	5.31	26,027	5.90	24,313
Trading Securities													
Issued or guaranteed by:													
Canadian federal government	848		1,163		795		614		668		4,088		4,291
Canadian provincial and municipal governments	321		341		81		377		481		1,601		1,545
U.S. federal government	1,210		1,022		150		150		138		2,670		4,348
U.S. states, municipalities and agencies	–		252		56		122		1		431		97
All other	4,246		141		135		342		3,592		8,456		8,510
Total trading securities	6,625		2,919		1,217		1,605		4,880		17,246		18,791
Loan Substitute Securities	–		–		–		–		–		–		361
Total Securities	$ 14,390		$ 7,117		$ 3,671		$ 6,677		$ 11,418		$ 43,273		$ 43,465

Yields in the table above are calculated using the book value of the security and the contractual interest or stated dividend rates associated with each security adjusted for any amortization of premiums and discounts and any country risk provision associated with a particular security. Tax effects are not taken into consideration.

Securities of designated countries include any securities that we receive as part of a debt restructuring by a foreign country. They are recorded net of any country risk allowance (note 5) that we have allocated to these securities.

The term to maturity included in the table above is based on the contractual maturity date of the security. Securities with no maturity date are included in the over 10 years category.

Interest income and gains and losses from securities are:

	1999	1998	1997
Reported in:			
Interest, dividend and fee income			
Investment securities	$ 1,404	$ 1,255	$ 1,118
Associated corporations	123	3	89
Trading securities	922	1,337	937
	$ 2,449	$ 2,595	$ 2,144
Other Income			
Investment securities			
Gross realized gains	$ 69	$ 121	$ 68
Gross realized losses	(61)	(24)	(16)
Write-downs	(93)	–	–
Net realized and unrealized gains (losses)	$ (85)	$ 97	$ 52
Trading securities, net realized and unrealized gains (losses)	$ (15)	$ (93)	$ 169

Interest expense is not included in the amounts shown above.

Unrealized Gains and Losses				1999				1998
	Book value	Gross unrealized gains	Gross unrealized losses	Market value	Book value	Gross unrealized gains	Gross unrealized losses	Market value
Investment Securities								
Issued or guaranteed by:								
Canadian federal government	$ 2,151	$ 13	$ 3	$ 2,161	$ 1,848	$ 27	$ –	$ 1,875
Canadian provincial and municipal governments	205	11	–	216	302	22	–	324
U.S. federal government	4,575	1	58	4,518	2,988	87	–	3,075
U.S. states, municipalities and agencies	6,175	4	39	6,140	5,629	47	–	5,676
Designated countries	29	16	–	45	42	22	–	64
Other governments	246	11	1	256	177	–	2	175
Mortgage-backed securities and collateralized mortgage obligations	3,523	–	175	3,348	2,852	50	–	2,902
Corporate debt	6,367	50	153	6,264	8,201	160	97	8,264
Corporate equity								
Associated corporations	856	–	226	630	709	–	190	519
Other	1,900	54	45	1,909	1,565	33	12	1,586
Total	$ 26,027	$ 160	$ 700	$ 25,487	$ 24,313	$ 448	$ 301	$ 24,460

The market value of a security is based on the quoted market price at each year end. This price may not necessarily be what we would receive if we were to sell the security.

We use a variety of valuation techniques to estimate the market value when there is no readily available quoted market price for a particular security.

Note 4 Loans

Loans

All loans are recorded at cost net of any unearned interest, unamortized discounts and allowance for credit losses. Interest income is recorded on an accrual basis except for impaired loans, the treatment of which is described below. From time to time we will restructure a loan due to the poor financial condition of the borrower. Interest on these restructured loans is recorded on an accrual basis unless we consider the loan to be impaired.

Securities purchased under resale agreements represent the amounts we will receive as a result of our commitment to resell securities that we have purchased, back to the original sellers, on a specified date at a specified price. We account for these instruments as loans.

Loan Fees

Loan fees are received for a variety of reasons. The accounting treatment for these fees varies depending on the transaction. The unrecognized portion of all loan fees is included in other liabilities in our Consolidated Balance Sheet. Loan syndication fees are included in other income when we complete the syndication. Loan origination, restructuring, renegotiation and commitment fees are recognized as interest income over the term of the loan unless we believe that the loan commitment we provide to our customer will not be used. In this case, we recognize the loan commitment fee over the commitment period.

Impaired Loans

We classify loans, except credit card and consumer instalment loans, as impaired when:

- we are unlikely to collect the principal or interest owed to us on a timely basis; or
- the principal or interest payments are 90 days past due unless we are actively trying to collect the loan and it is fully secured; or
- fully secured loans become 180 days past due; or
- we consider it prudent or appropriate to cease accruing interest on the loan.

Credit card loans are immediately classified as impaired and written off when principal or interest payments become 180 days past due. Consumer instalment loans are immediately classified as impaired when the principal or interest payments are 90 days past due and are written off when they are past due by one year.

We do not accrue interest when we classify a loan as impaired and any interest income that is accrued and unpaid is reversed to interest income.

The interest income that we would have recognized over the past three years if we had not classified loans as impaired is:

	1999	1998	1997
Interest income that would have been accrued at original contract rates	$ 50	$ 51	$ 68
Less: amount recognized as interest income	(5)	(8)	(43)
Total	$ 45	$ 43	$ 25

Any payments received on a loan that has been classified as impaired are recorded first to recover any previous write-offs or allowances before income is recognized. Any payments that we receive on impaired consumer instalment loans and loans to designated countries are applied first to the outstanding interest and then to the remaining principal amount.

Any property or other assets that we receive from our borrowers to satisfy their loan commitments to us are classified as impaired and recorded at the lower of the amount we expect to recover and the outstanding balance of the loan at the time the customer transfers the asset to us.

A loan will be reclassified back to performing status if new circumstances arise which cause us to believe that our principal and interest will be recovered in a timely manner from the borrower.

We restructured $3 of loans classified as performing in the year ended October 31, 1999. No such restructurings occurred in the year ended October 31, 1998.

No restructured loans were written off in the years ended October 31, 1999 and 1998.

The following table sets out the outstanding amounts that we have classified as impaired:

	Canada		United States		Mexico		Other countries		Total	
	1999	1998	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998
Residential mortgages	**$ 133**	$ 109	**$ –**	$ –	**$ –**	$ –	**$ –**	$ –	**$ 133**	$ 109
Consumer instalment and other personal loans	**53**	38	**3**	5	**–**	–	**–**	–	**56**	43
Loans to businesses and governments	**437**	361	**317**	221	**10**	–	**98**	90	**862**	672
Securities purchased under resale agreements	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Securities of designated countries	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Loan substitute securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Acceptances	**41**	–	**–**	–	**–**	–	**–**	–	**41**	–
Total impaired loans and acceptances	**664**	508	**320**	226	**10**	–	**98**	90	**1,092**	824
Allowance for credit losses	**(963)**	(868)	**(335)**	(268)	**–**	–	**(50)**	(30)	**(1,348)**	(1,166)
Total net impaired loans and acceptances	**$ (299)**	$ (360)	**$ (15)**	$ (42)	**$ 10**	$ –	**$ 48**	$ 60	**$ (256)**	$ (342)
Average net impaired loans and acceptances	**$ (339)**	$ (350)	**$ 14**	$ (45)	**$ 1**	$ –	**$ 57**	$ 20	**$ (267)**	$ (375)
Average gross impaired loans and acceptances	**$ 593**	$ 543	**$ 297**	$ 200	**$ 1**	$ –	**$ 90**	$ 34	**$ 981**	$ 777

	Canada			United States			Mexico			Other countries			Total		
	1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997	**1999**	1998	1997	**1999**	1998	1997
Gross interest income received on impaired loans and acceptances	**$ 28**	$ 23	$ 54	**$ 44**	$ 41	$ 90	**$ –**	$ –	$ –	**$ 46**	$ 15	$ 60	**$ 118**	$ 79	$ 204
Interest income received on impaired loans and acceptances, net of interest reversals	**$ 12**	$ 5	$ 39	**$ 41**	$ 40	$ 90	**$ –**	$ –	$ –	**$ 46**	$ 15	$ 60	**$ 99**	$ 60	$ 189

Designated countries are determined by the Superintendent of Financial Institutions Canada as having difficulty in servicing all or part of their external debt to commercial banks. We did not have any net impaired loans to designated countries as at October 31, 1999 or October 31, 1998. Approximately 5% of the gross exposure to designated countries was classified as impaired as at October 31, 1999 and 4% as at October 31, 1998.

The allowance for credit losses does not include $79 as at October 31, 1999 and $98 as at October 31, 1998 of country risk allowance that is in excess of gross impaired loans to designated countries.

Included in impaired loans is other real estate owned and securities received from customers in satisfaction of their loans totalling $40 as at October 31, 1999 and $48 as at October 31, 1998.

Fully secured loans with past due amounts between 90 and 180 days that we have not classified as impaired totalled $54 as at October 31, 1999 and $44 as at October 31, 1998.

Credit Instruments

As a part of our business, we enter into various commitments to provide our customers with sources of credit. In making these commitments, we expose ourselves to credit risk, being the risk that we may incur a loss if a counterparty fails to meet its obligations.

These commitments include:

- Guarantees and standby letters of credit which represent our obligation to make payments to third parties on behalf of our customers if our customers are unable to make the required payments or meet other contractual requirements;
- Securities lending which represents our credit exposure when we lend our securities, or our customers' securities, to third parties;
- Documentary and commercial letters of credit which represent our agreement to honour drafts presented by a third party upon completion of specific activities;
- Commitments to extend credit to our customers in the form of loans or other financings for specific amounts and maturities, subject to meeting certain conditions;
- Note issuance and revolving underwriting facilities and similar arrangements, including facilities under which we acquire short-term notes issued by our customers for a predetermined price in the event that the customer is unable to sell the notes to third parties.

Summarized below is the contractual and risk-weighted equivalent value of our various commitments, which are based on the rules for capital adequacy of the Superintendent of Financial Institutions Canada. The risk-weighted equivalent value is used in the ongoing assessment of our capital adequacy ratios.

	1999		1998	
	Contract amount	**Risk-weighted equivalent**	Contract amount	Risk-weighted equivalent
Credit Instruments				
Guarantees and standby letters of credit	**$ 13,218**	**$ 8,515**	$ 14,006	$ 9,385
Securities lending	**9,818**	**977**	12,757	567
Documentary and commercial letters of credit	**731**	**115**	812	120
Commitments to extend credit:				
Original maturity of one year and under	**70,073**	**–**	59,972	–
Original maturity of over one year	**32,534**	**15,677**	34,890	16,737
Note issuance and revolving underwriting facilities	**–**	**–**	63	6
Total	**$ 126,374**	**$ 25,284**	$ 122,500	$ 26,815

Commitments to extend credit in respect of consumer instalment and credit card loans are excluded as the lines are revocable at our discretion.

Note 5 Allowance for Credit Losses

The provision for credit losses is recorded in our Consolidated Statement of Income. It is based on statistical analysis and management judgement and represents the appropriate expense given the composition of our credit portfolios, their probability of default, the economic environment and the allowance for credit losses already established.

The allowance for credit losses recorded in our Consolidated Balance Sheet is maintained at a level which we consider to be adequate to absorb potential credit losses in our on- and off-balance sheet portfolios.

We maintain the following allowances:

Specific Allowances

These allowances are recorded for specific loans to reduce their book value to the amount we expect to recover from the loans. We review our loans and acceptances, other than consumer instalment and credit card loans, at least quarterly, to assess whether the loan should be classified as impaired and an allowance or write-off recorded. Our review of problem loans is conducted by our account managers who assess the ultimate collectibility and estimated recoveries on a specific loan based on all events and conditions that the manager believes are relevant to the condition of the loan. This assessment is then reviewed and approved by an independent credit officer. Significant specific allowances and the aggregate allowance for credit losses are reviewed by officers in the Risk Management Group.

We use a variety of methods to determine the amount we expect to recover from impaired loans including the discounted value of estimated future cash flows, observable market values or the fair value of the underlying security discounted to reflect when we expect to sell the security. The value of any collateral is also considered in establishing an allowance. Collateral can vary by type of loan and may include cash, securities, real property, accounts receivable, guarantees, inventory or other capital assets.

General Allowance

This allowance is established to absorb credit losses in a portfolio of on- and off-balance sheet exposure, including those of associated corporations, joint ventures and securitization vehicles, recognizing that not all of the impairment in the loan portfolio can be specifically identified on a loan by loan basis. The general allowance is based upon statistical analysis of past performance, the level of allowance already in place and management's judgement. The general allowance would normally increase in a strong business/economic cycle and would be drawn down during a weak business/economic cycle when specific allowances would normally increase in relation to our exposures.

The value of loans covered by the general allowance totalled $147,123 as at October 31, 1999 and $149,710 as at October 31, 1998.

Country Risk Allowance

This allowance is recorded for loans to and securities of countries identified by the Superintendent of Financial Institutions Canada that have restructured or experienced difficulties in servicing all or part of their external debt to commercial banks. These loans and securities are reviewed regularly by management within the Risk Management Group to assess the adequacy of the allowance based on the current and expected political and economic conditions in the respective countries.

The following table sets out the allocation of our allowance for credit losses:

	Specific allowances			General allowance			Country risk allowance			Total		
	1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997	**1999**	1998	1997
Residential mortgages	**$ 4**	$ 4	$ 9	**$ –**	$ –	$ –	**$ –**	$ –	$ –	**$ 4**	$ 4	$ 9
Consumer instalment and other personal loans	**8**	9	11	**–**	–	–	**–**	–	–	**8**	9	11
Loans to businesses and governments	**360**	262	345	**–**	–	–	**6**	6	5	**366**	268	350
Securities purchased under resale agreements	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Unallocated	**–**	–	–	**970**	885	775	**–**	–	–	**970**	885	775
	372	275	365	**970**	885	775	**6**	6	5	**1,348**	1,166	1,145
Securities of designated countries	**–**	–	–	**–**	–	–	**79**	98	93	**79**	98	93
Loan substitute securities	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
Acceptances	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–
	372	275	365	**970**	885	775	**85**	104	98	**1,427**	1,264	1,238
Off-balance sheet items	**–**	8	1	**–**	–	–	**–**	–	–	**–**	8	1
Total	**$ 372**	$ 283	$ 366	**$ 970**	$ 885	$ 775	**$ 85**	$ 104	$ 98	**$ 1,427**	$ 1,272	$ 1,239

Changes in our allowance for credit losses are:

	Specific allowances			General allowance			Country risk allowance			Total		
	1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997	**1999**	1998	1997
Balance at beginning of year	**$ 283**	$ 366	$ 552	**$ 885**	$ 775	$ 475	**$ 104**	$ 98	$ 116	**$ 1,272**	$ 1,239	$ 1,143
Provision for credit losses	**235**	20	75	**85**	110	200	**–**	–	–	**320**	130	275
Transfer of allowance	**–**	–	(100)	**–**	–	100	**–**	–	–	**–**	–	–
Recoveries	**47**	64	158	**–**	–	–	**–**	–	–	**47**	64	158
Write-offs	**(178)**	(192)	(334)	**–**	–	–	**(15)**	(3)	(23)	**(193)**	(195)	(357)
Other, including foreign exchange rate changes	**(15)**	25	15	**–**	–	–	**(4)**	9	5	**(19)**	34	20
Balance at end of year	**$ 372**	$ 283	$ 366	**$ 970**	$ 885	$ 775	**$ 85**	$ 104	$ 98	**$ 1,427**	$ 1,272	$ 1,239

Note 6 Asset Securitization

Periodically we securitize portions of our assets by selling loans to special-purpose vehicles or trusts of which we are not the beneficiary. We account for these transactions as sales when the significant risks and rewards of the ownership of the loans have been transferred and we can estimate the amount of cash to be received.

We record these sales based upon the market value of the loans sold.

The purchase and sale contracts provide for the payment to us of the proceeds of sale when the sum of interest and fees collected from customers exceeds the yield paid to investors on the assets, credit losses and other costs. We record our entitlement to such proceeds in income when the amount is legally payable by the special-purpose vehicle or trust. The fees which we receive for continuing to service the loans sold are recorded in income using the accrual method.

The outstanding amounts of loans sold to special-purpose vehicles or trusts are:

	1999	1998
Securitized credit card receivables	**$ 2,500**	$ 2,500
Securitized mortgage loans	**5,542**	5,061
Securitized corporate loans	**4,102**	4,089

The impact of securitization on our Consolidated Statement of Income is:

	1999	1998	1997
Net interest income	**$ (234)**	$ (128)	$ (17)
Provision for credit losses	**42**	50	–
Other income – card services	**(89)**	(79)	(14)
– securitization revenues	**296**	158	32
– other fees and commissions	**(9)**	(11)	(2)
Income (loss) before provision for income taxes, non-controlling interest in subsidiaries and goodwill	**$ 6**	$ (10)	$ (1)

Note 7 Premises and Equipment

We record all premises and equipment at cost. Buildings, computer and other equipment and leasehold improvements are amortized on a straight-line basis over the estimated useful life of the asset. The maximum estimated useful lives we use to amortize our assets are:

- Buildings 40 years
- Computer and other equipment 10 years
- Leasehold improvements 15 years

Amortization expense for the years ended October 31, 1999, 1998 and 1997 amounted to $412 in 1999, $318 in 1998 and $348 in 1997. Included in land and buildings are the costs of Bank-owned branches and other properties, located in Canada, the United States and other countries, of which we owned 522 as at October 31, 1999 and 530 as at October 31, 1998.

	1999	1998
Land	**$ 272**	$ 280
Buildings	**1,263**	1,282
Computer and other equipment	**2,064**	2,037
Leasehold improvements	**353**	350
	3,952	3,949
Accumulated amortization	**(1,724)**	(1,638)
Total	**$ 2,228**	$ 2,311

Lease Commitments

We have entered into a number of non-cancellable leases for premises and equipment. Our total contractual rental commitments outstanding as at October 31, 1999 are $771. The commitments for each of the next five years are $150 for 2000, $130 for 2001, $92 for 2002, $72 for 2003, $59 for 2004 and $268 thereafter. Included in these amounts are the commitments related to 676 leased Bank branch locations as at October 31, 1999. Net rent expense for premises and equipment reported in our Consolidated Statement of Income was $175 for 1999, $168 for 1998 and $166 for 1997.

Note 8 Other Assets

	1999	1998
Accounts receivable, prepaid expenses and other items	$ 3,560	$ 3,736
Accrued interest receivable	1,289	1,633
Due from clients, dealers and brokers	849	1,474
Unrealized gains and amounts receivable on derivative contracts	9,595	12,552
Future income taxes	343	261
Intangible assets and goodwill	688	793
Total	$ 16,324	$ 20,449

Intangible Assets

Intangible assets which we acquire when we invest in subsidiaries or other specific assets are recorded at their fair value at the time we make the investment. The amount is amortized to income over the period which we believe the assets will benefit us, generally not exceeding 20 years. We write down the assets to their fair value when the cash flows are not expected to allow for recovery of the carrying value.

Goodwill

When we acquire a subsidiary or make other specific investments we determine the fair value of the net tangible and intangible assets acquired and compare the total to the amount that we paid for the investments. Any excess of the amount paid over fair value of those assets is considered to be goodwill. This amount is deferred and amortized to income over the period that we believe it will benefit us up to a maximum of 20 years. Goodwill is written down to its fair value when the expected cash flows from the investment no longer support the carrying value and the shortfall is other than temporary.

Change in Accounting Policy for Goodwill Presentation

The Canadian Institute of Chartered Accountants has approved a new standard for presentation of goodwill amortization in the Consolidated Statement of Income. The standard permits the presentation of goodwill amortization on a net of tax basis and the disclosure of net income per common share before goodwill in the Consolidated Statement of Income. Our practices comply with the new standard.

The components of intangible assets and goodwill for each major subsidiary are as follows:

	1999	1998
Intangible assets		
Harris Bankcorp, Inc. and subsidiaries	$ 187	$ 217
Harris Bankmont, Inc. and subsidiaries	65	74
Bank of Montreal Mortgage Corporation	6	8
	258	299
Goodwill		
The Nesbitt Burns Corporation Limited and subsidiaries	187	217
Harris Bankcorp, Inc. and subsidiaries	176	202
Harris Bankmont, Inc. and subsidiaries	64	75
Other	3	–
	430	494
Total	$ 688	$ 793

Amortization of intangible assets is recorded in our Consolidated Statement of Income as:

	1999	1998	1997
Non-interest expense	$ 21	$ 24	$ 28
Interest expense	11	11	11
Total	$ 32	$ 35	$ 39

Amortization of goodwill is recorded net of applicable income tax, in our Consolidated Statement of Income, and is comprised of the following:

	1999	1998	1997
Goodwill	$ 49	$ 48	$ 46
Income tax (benefit)	(6)	(6)	(5)
Goodwill net of applicable tax	$ 43	$ 42	$ 41

Note 9 Operating and Geographic Segmentation

We conduct our business through operating segments, each of which has a distinct market and product mandate. Information concerning the identification of these operating segments, including disclosure of their revenues, expenses, net income, average assets, loans and deposits, is encapsulated under the heading of Client Group Reorganization on page 25 and in the tables on pages 44 to 49 and pages 54 to 57 of our Management Analysis of Operations.

Note 10 Deposits

	Demand deposits									
	Interest bearing		Non-interest bearing		Payable after notice		Payable on a fixed date		Total	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Deposits by:										
Banks	$ 201	$ 308	$ 493	$ 520	$ 244	$ 169	$ 29,460	$ 25,259	$ 30,398	$ 26,256
Businesses and governments	3,140	2,966	8,649	8,637	10,050	7,597	43,620	38,864	65,459	58,064
Individuals	1,827	2,065	1,937	1,582	25,213	24,238	32,040	31,778	61,017	59,663
Total	$ 5,168	$ 5,339	$ 11,079	$ 10,739	$ 35,507	$ 32,004	$ 105,120	$ 95,901	$ 156,874	$ 143,983
Booked in:										
Canada	$ 4,617	$ 4,036	$ 6,440	$ 5,722	$ 25,351	$ 23,155	$ 50,164	$ 47,232	$ 86,572	$ 80,145
United States	498	957	4,620	4,986	9,954	8,694	30,003	28,724	45,075	43,361
Mexico	–	–	–	–	–	–	–	–	–	–
Other countries	53	346	19	31	202	155	24,953	19,945	25,227	20,477
Total	$ 5,168	$ 5,339	$ 11,079	$ 10,739	$ 35,507	$ 32,004	$ 105,120	$ 95,901	$ 156,874	$ 143,983

Demand deposits are comprised primarily of our customers' chequing accounts, some of which we pay interest on. Our customers need not notify us prior to withdrawing money from their chequing accounts.

Deposits payable after notice are comprised primarily of our customers' savings accounts, on which we pay interest. Our customers are often required to give us notice prior to withdrawing money from these accounts.

Deposits payable on a fixed date are comprised primarily of various investment instruments purchased by our customers, such as term deposits and guaranteed investment certificates, to earn interest over a fixed period. The term of these deposits can vary from one day to ten years.

Deposits include federal funds purchased, which are overnight borrowings of other banks' excess reserve funds at a United States Federal Reserve Bank. As at October 31, 1999 we had purchased $3,677 and $3,461 as at October 31, 1998.

Deposits include commercial paper totalling $649 as at October 31, 1999 and $615 as at October 31, 1998.

Included in our deposits are $28,180 of individual deposits greater than $100,000.00 in Canada and $52,109 outside Canada as at October 31, 1999 and $26,025 in Canada and $44,686 outside Canada as at October 31, 1998. Of the total deposits booked in Canada $18,590 related to deposits maturing within six months or less as at October 31, 1999 and $19,856 as at October 31, 1998. Individual deposits greater than $100,000.00 outstanding that are payable on a fixed date totalled $80,289 as at October 31, 1999 and $70,711 as at October 31, 1998.

Note 11 Other Liabilities

Acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our customers and which we guarantee for a fee. We have an offsetting claim, equal to the amount of the acceptances, against our customers when the instrument matures. The amount due under acceptances is recorded as a liability and our corresponding claim is recorded as an asset in our Consolidated Balance Sheet.

Securities Sold but not yet Purchased

Securities sold but not yet purchased represent our obligation to deliver securities which we did not own at the time of sale. These obligations are recorded at their market value. Adjustments to the market value as at the balance sheet date and gains and losses on the settlement of these obligations are recorded as interest, dividend and fee income from securities in our Consolidated Statement of Income.

Securities Sold under Repurchase Agreements

Securities sold under repurchase agreements represent short-term funding transactions where we sell securities that we already own and simultaneously commit to repurchase the same securities at a specified price on a specified date in the future. These securities are recorded at their original cost. The interest expense related to these liabilities is recorded on an accrual basis.

	1999	1998
Acceptances	**$ 6,753**	$ 6,944
Securities sold but not yet purchased	**10,450**	7,843
Securities sold under repurchase agreements	**24,177**	29,758
	$ 41,380	$ 44,545
Accounts payable, accrued expenses and other items	**$ 3,044**	$ 3,150
Liabilities of subsidiaries, other than deposits	**2,715**	1,433
Accrued interest payable	**1,382**	1,298
Unrealized losses and amounts payable on derivative contracts	**9,029**	12,133
Deferred loan fees	**104**	132
Non-controlling interest in subsidiaries	**394**	517
Other	**$ 16,668**	$ 18,663
Total	**$ 58,048**	$ 63,208

Included in liabilities of subsidiaries, other than deposits are other short-term borrowings totalling $2,568 as at October 31, 1999 and $1,279 as at October 31, 1998.

Note 12 Subordinated Debt

Subordinated debt represents our direct unsecured obligations to our debt holders and forms part of our regulatory capital. The rights of the holders of our notes and debentures are subordinate to the claims of depositors and certain other creditors. We require prior approval from the Superintendent of Financial Institutions Canada before we can redeem any part of the subordinated debt.

Our subordinated debt consists of notes and debentures with interest rates ranging from 5.49% to 10.85%. The maturity dates extend from May 2002 to August 2089.

The interest rates on certain debenture series are variable based on various indices. In addition, certain series of subordinated debt are redeemable at our option on various dates prior to February 2012.

Included in subordinated debt are debentures and subordinated notes denominated in U.S. dollars totalling US$950 as at October 31, 1999 and October 31, 1998. The Canadian dollar equivalent of these is $1,398 as at October 31, 1999 and $1,466 as at October 31, 1998.

Repayments of our subordinated debt required over the next five years and thereafter are:

2000	$ –
2001	–
2002	150
2003	250
2004	–
Thereafter	4,312
Total	$ 4,712

Note 13 Share Capital

Outstanding

(Canadian $ in millions, except per share information)

	1999			1998			1997		
	Number of shares	**Amount**	**Dividends declared per share**	Number of shares	Amount	Dividends declared per share	Number of shares	Amount	Dividends declared per share
Preferred Shares									
Class A – Series 4	**–**	**$ –**	**$ 1.87**	8,000,000	$ 200	$ 2.25	8,000,000	$ 200	$ 2.25
Class A – Series 5	**–**	**–**	**522.26**	288	72	19,062.50	288	72	19,062.50
Class B – Series 1	**10,000,000**	**250**	**2.25**	10,000,000	250	2.25	10,000,000	250	2.25
Class B – Series 2	**10,000,000**	**368**	**US$1.69**	10,000,000	386	US$1.69	10,000,000	352	US$1.69
Class B – Series 3	**16,000,000**	**400**	**1.39**	16,000,000	400	1.39	16,000,000	400	0.93
Class B – Series 4	**8,000,000**	**200**	**1.20**	8,000,000	200	0.90	–	–	–
Class B – Series 5	**8,000,000**	**200**	**1.33**	8,000,000	200	0.99	–	–	–
Class B – Series 6	**10,000,000**	**250**	**1.19**	10,000,000	250	0.63	–	–	–
		1,668			1,958			1,274	
Common Shares	**267,032,100**	**3,190**	**1.88**	264,433,198	3,095	1.76	261,436,344	3,019	1.64
Total Outstanding Share Capital		**$ 4,858**			$ 5,053			$ 4,293	

	Redeemable	**Redeemable starting...**	**Redeemable for...**	**Convertible...**	**Convertible starting...**	**Convertible into...**	**Dividend Rate and Terms**
Preferred Shares							
Class B Series 1	At our option	February 25, 2001	$25.00 cash per share or an equivalent value of our common shares.	At the shareholder's option	August 25, 2001	Our common shares. However, we have the right to pay $25.00 cash per share instead.	Quarterly, non-cumulative dividend of $0.5625 per share.
Class B Series 2 (US$ shares)	At our option	August 25, 2001	US$25.00 cash per share or an equivalent value of our common shares.	At the shareholder's option	February 25, 2002	Our common shares. However, we have the right to pay US$25.00 cash per share instead.	Quarterly, non-cumulative dividend of US$0.4219 per share.
Class B Series 3	At our option	August 25, 2004	$25.00 cash per share, plus a premium if we redeem the shares before August 25, 2006, or an equivalent value of our common shares.	At the shareholder's option	May 25, 2007	Our common shares. However, we have the right to pay $25.00 cash per share instead.	Quarterly, non-cumulative dividend of $0.346875 per share.
Class B Series 4	At our option	August 25, 2005	$25.00 cash per share, plus a premium if we redeem the shares before August 25, 2007, or an equivalent value of our common shares.	At the shareholder's option	May 25, 2008	Our common shares. However, we have the right to pay $25.00 cash per share instead.	Quarterly, non-cumulative dividend of $0.30 per share.
Class B Series 5	At our option	February 25, 2013	$25.00 cash per share.	Not convertible	–	–	Quarterly, non-cumulative dividend of $0.33125 per share.
Class B Series 6	At our option	November 25, 2005	$25.00 cash per share, plus a premium if we redeem the shares before November 25, 2007, or an equivalent value of our common shares.	At the shareholder's option	November 25, 2008	Our common shares. However, we have the right to pay $25.00 cash per share instead.	Quarterly, non-cumulative dividend of $0.296875 per share.
Common Shares							
	Not redeemable	–	–	Not convertible	–	–	Dividends on common shares are declared by us on a quarterly basis and the amount can vary from quarter to quarter.

Authorized

We are authorized by our shareholders to issue an unlimited number of our common shares, without par value, providing the aggregate consideration we receive for the shares does not exceed $5.5 billion. We are authorized to issue an unlimited number of Class A Preferred Shares and Class B Preferred Shares without par value, in series, provided the aggregate amount of consideration we receive for all Class A and Class B Preferred Shares does not exceed $2.5 billion each. Class B Preferred Shares may be issued in a foreign currency.

Redemption and Dividend Restrictions

The Superintendent of Financial Institutions Canada must approve any plan to redeem any of our preferred share issues for cash.

We are prohibited from declaring dividends on our preferred or common shares when we are, or would be as a result of paying such a dividend, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless all dividends declared and payable on our preferred shares have been paid or sufficient funds have been set aside to do so.

Common Shares

We maintain a Stock Option Plan for designated officers and employees. The options granted under this plan can be exercised starting five fiscal years from November 1 of the fiscal year in which the options are granted to the officer or employee after we have met certain performance targets. The options expire ten years from the date they are granted. When the stock options are exercised we include the amount of the proceeds in shareholders' equity.

In 1996 we also granted options to Grupo Financiero Bancomer to purchase up to 9,957,285 of our common shares as part of the consideration paid for our investment in Grupo Financiero Bancomer. The options can be exercised starting March 29, 2001 and expire on March 29, 2003. The options can only be exercised if Grupo Financiero Bancomer meets certain performance targets.

One of our subsidiaries, Bank of Montreal Securities Canada Limited, has issued various classes of non-voting shares which can be exchanged for our common shares. Class B and C shares can be exchanged at the option of the holder for our common shares. The number of our common shares that will be issued on the exchange of these shares is based on a formula. Class E and F shares can be exchanged at the option of the holder on a one-for-one basis.

As at October 31, 1999, we had reserved 5,804,301 common shares for potential issue in respect of our Shareholder Dividend Reinvestment and Share Purchase Plan, 4,112,913 common shares in respect of the exchange of Class B, C, E and F shares of Bank of Montreal Securities Canada Limited and 28,601,085 common shares for the potential exercise of stock options.

Potential Share Issuances

The following table sets out the number of common shares which we may issue in various circumstances:

		1999		1998	
	Issue date	**Number of shares**	**Price per share**	Number of shares	Price per share
Stock Option Plan	1995	**2,028,100**	**$ 25.50**	2,296,200	$ 25.50
	1996	**2,523,300**	**31.00**	2,760,700	31.00
	1997	**2,437,550**	**39.85**	2,649,050	39.85
	1997	**75,000**	**57.50**	75,000	57.50
	1998	**1,937,900**	**65.80**	1,947,600	65.80
	1998	**51,500**	**85.40**	56,200	85.40
	1999	**4,754,600**	**60.35**	–	–
		13,807,950		9,784,750	
Other options	1996	**9,957,285**	**$ 36.50**	9,957,285	$ 36.50
		23,765,235		19,742,035	
Other convertible issuances	1992	**–**	**$ –**	1,605,021	$ 56.28
	1992	**1,450,312**	**13.79**	2,003,840	14.04
	1994	**320,447**	**18.80**	662,622	19.09
		1,770,759		4,271,483	
Total		**25,535,994**		24,013,518	

This table does not include certain share issues which are redeemable at our option or subject to our ability to settle a conversion option with cash.

Stock options totalling 674,500 shares were exercised during the current year and options for 269,600 shares were exercised during the prior year. The number of stock options cancelled during the year ended October 31, 1999 was 89,200 and options for 51,800 shares were cancelled during the prior year. The weighted average exercise price of all the options outstanding as at October 31, 1999 was $47.10 per share, $39.56 per share as at October 31, 1998 and $32.64 per share as at October 31, 1997.

At a weighted average exercise price of $42.58 per share, 819,750 stock options were exercisable as at October 31, 1999; at a weighted average exercise price of $32.35 per share, 429,350 stock options were exercisable as at October 31, 1998; and at a weighted average exercise price of $28.27 per share, 270,100 stock options were exercisable as at October 31, 1997.

The weighted average fair value of options granted during the year ended October 31, 1999 was $12.33, $13.69 for those granted during the year ended October 31, 1998 and $7.84 for those granted during the year ended October 31, 1997. We determine the fair value of each option granted using the Rolle-Geske Option Pricing Model with the following assumptions:

- risk-free interest rate of 4.9% for 1999, 5.8% for 1998 and 6.7% for 1997;
- expected period until exercise of 7.5 years for 1999, 7.5 years for 1998 and 7.5 years for 1997;
- expected stock volatility of 19.8% for 1999, 16.0% for 1998 and 17.2% for 1997;
- expected dividend yield of 8.8% for 1999, 8.8% for 1998 and 6.2% for 1997.

Note 14 Restructuring Charge

In October 1999, we recorded a charge of $141 ($81 after tax) for exit costs associated with restructuring initiatives of which $13 had been paid as at October 31, 1999. We plan to complete these restructuring initiatives by October 31, 2000.

The charge is comprised of $106 to eliminate 1,430 positions, $19 to meet leasehold obligations and $16 to write down fixed assets.

The charge includes exit costs related to the activities of each of our operating groups: $67 for costs to realign the Bank's distribution system, including the closure of 105 branches in the Personal and Commercial Client Group; $16 for costs to realign investment and corporate banking activities, including certain businesses in our London, England branch in the Investment Banking Group; $6 for strategic repositioning of our wealth management business into six new lines of business in the Private Client Group; and $52 for costs to exit certain centrally managed functions that are no longer required to support our strategic initiatives.

Note 15 Income Taxes

We report our provision for income taxes in our Consolidated Statement of Income based upon transactions recorded in our consolidated financial statements regardless of when they are recognized for income tax purposes.

In addition, we record income tax expense or benefit directly in retained earnings for those items recorded in shareholders' equity.

Provision for Income Taxes	1999	1998	1997
Consolidated Statement of Income			
Provision for income taxes	**$ 736**	$ 810	$ 845
Income tax (benefit) related to amortization of goodwill	**(6)**	(6)	(5)
Shareholders' Equity			
Income tax expense (benefit) related to foreign currency translation and costs of proposed merger	**158**	(237)	(92)
Total	**$ 888**	$ 567	$ 748
Components of Total Income Taxes			
Canada:			
Current income taxes			
Federal	**$ 575**	$ 243	$ 437
Provincial	**186**	95	167
	761	338	604
Future income taxes			
Federal	**(116)**	16	(83)
Provincial	**(35)**	5	(24)
	(151)	21	(107)
Total Canadian	**610**	359	497
Foreign:			
Current income taxes	**209**	213	260
Future income taxes	**69**	(5)	(9)
Total Foreign	**278**	208	251
Total	**$ 888**	$ 567	$ 748

Net future income taxes included in other assets is the cumulative amount of tax applicable to temporary differences between the carrying amount of our assets and liabilities and their values for tax purposes.

We review the valuation of our future income tax assets quarterly and adjust our valuation allowance, as necessary, to reflect the realizable amount of our future income tax assets. We expect that we will realize our future income tax assets in the normal course of our operations.

Components of Future Income Tax Balances	1999	1998
Future Income Tax Assets		
Allowance for credit losses	**$ 522**	$ 434
Deferred items	**117**	84
Other	**115**	92
	754	610
Valuation allowance	**–**	(9)
Future Income Tax Assets	**754**	601
Future Income Tax Liabilities		
Premises and equipment	**(180)**	(156)
Deferred pension	**(150)**	(148)
Other	**(81)**	(36)
Future Income Tax Liabilities	**(411)**	(340)
Net Future Income Tax Asset	**$ 343**	$ 261

Change in Accounting Policy

The Canadian Institute of Chartered Accountants has approved new standards for recording and disclosing income taxes beginning in fiscal 2001. Our practices comply with these new standards.

Set out below is a reconciliation of our statutory tax rates and income tax that would be payable at these rates to the effective income tax rates and provision for income taxes that we have reported in our Consolidated Statement of Income:

	1999		1998		1997	
Combined Canadian federal and provincial income taxes and statutory tax rate	**$ 919**	**42.1%**	$ 936	42.0%	$ 929	41.9%
Increase (decrease) resulting from:						
Tax-exempt income	**(91)**	**(4.2)**	(82)	(3.7)	(71)	(3.2)
Foreign operations subject to different tax rates	**(133)**	**(6.1)**	(102)	(4.6)	(63)	(2.9)
Intangible assets not deductible for tax purposes	**6**	**0.3**	6	0.3	6	0.3
Large corporations tax	**11**	**0.5**	14	0.6	8	0.4
Financial institutions temporary surcharge	**11**	**0.5**	10	0.5	10	0.4
Other	**13**	**0.6**	28	1.2	26	1.2
Provision for Income Taxes and Effective Tax Rate	**$ 736**	**33.7%**	$ 810	36.3%	$ 845	38.1%

We are subject to Canadian taxation on the income earned in our foreign branches, and certain earnings of foreign subsidiaries when repatriated to Canada. Income which we earn in foreign countries is generally subject to tax in those countries. Upon repatriation of earnings from foreign subsidiaries, we would be required to pay tax on certain of these earnings. As repatriation of such earnings is not currently planned, we have not recognized the future tax liability. Canadian and foreign taxes that would be payable if all of our foreign subsidiaries' earnings were repatriated are estimated to be $387 as at October 31, 1999 and $324 as at October 31, 1998.

Note 16 Net Income per Common Share

Our basic net income per common share is calculated by dividing our net income, after deducting total preferred share dividends, by the daily average number of fully paid common shares outstanding throughout the year.

In 1999, 1998 and 1997 the fully diluted amount included the potential dilution of convertible securities issued by a subsidiary and the potential issuance of shares under stock options issued in 1995. Additionally, options issued in 1996 were included in the fully diluted amount in 1999. The average number of common shares outstanding throughout the year used to calculate our fully diluted net income per common share is based on the assumption that the conversion or redemption of all securities which are convertible or redeemable at the option of the holder occurred at the beginning of the year or at the date the security was issued, if later.

Our net income applicable to common shares and the average number of common shares outstanding for the year used to calculate our basic and fully diluted net income per common share before and after goodwill amortization are as follows:

	1999	1998	1997
Net income before goodwill attributable to common shares – basic	**$ 1,308**	$ 1,280	$ 1,263
Net income attributable to common shares – basic	**$ 1,265**	$ 1,238	$ 1,222
Average number of common shares outstanding – basic	**265,861,729**	262,510,741	260,409,736
Average number of common shares outstanding – fully diluted	**272,573,469**	269,047,747	268,699,928

Note 17 Pensions

We have a number of pension plans which provide benefits to our retired employees. The principal pension plan covers Canadian employees. Our plans generally provide retirement benefits based on the employees' years of service and average earnings at the time of retirement and do not require employees to make contributions. Voluntary contributions can be made by employees.

Our actuaries perform regular valuations of the accrued obligation for pension benefits to our employees based on assumptions about salary growth, retirement age and mortality. The pension plan assets are carried at market value and are set aside to satisfy our pension obligations.

The pension expense is recorded in our Consolidated Statement of Income as a component of salaries and employee benefits. It is determined by the cost of the employee pension benefits offset by the assumed investment return on the pension plan assets. When the actual return differs from the assumed return, the experience gain or loss is deferred and allocated to future periods.

The cumulative difference between the pension expense and the actual cash contributions we make into the pension plans on our employees' behalf are included in our Consolidated Balance Sheet as part of other assets or other liabilities, as appropriate.

We also provide certain life insurance, health and dental care benefits for retired employees. The cost of these benefits is recorded in salaries and employee benefits expense as incurred.

Change in Accounting Policy

The Canadian Institute of Chartered Accountants has approved a new standard for recording and disclosing pension and other future employee benefits which we must adopt beginning in fiscal 2001. The most significant changes are:

- our pension benefit obligation will be calculated using a current market rate rather than management's best estimate of the long-term discount rate;
- we will record an actuarially determined liability and expense for certain other benefits we provide for current and retired employees rather than recognizing the expense as it is incurred.

The overall impact of the new standard is not determinable at this time; however, it could be significant. The impact is dependent on the interest rate environment at the time and the accounting option chosen for implementation.

The following tables provide summaries of our pension plans' estimated financial positions:

	1999	1998	1997
Accumulated pension benefit obligation, including vested benefits of $1,783 in 1999, $1,826 in 1998 and $1,631 in 1997	**$ 1,821**	$ 1,864	$ 1,670
Projected pension benefit obligation for employee service, beginning of year	**$ 2,125**	$ 1,877	$ 1,746
Pension benefits earned by employees	**73**	66	59
Interest cost accrued on our projected benefit obligation	**154**	148	137
Benefits paid to pensioners	**(169)**	(151)	(116)
Voluntary employee contributions	**4**	5	5
Changes in actuarial assumptions and experience (gains) losses	**(153)**	128	27
Plan amendments	**13**	8	6
Other, primarily foreign exchange	**(24)**	44	13
Projected pension benefit obligation for employee service, end of year	**$ 2,023**	$ 2,125	$ 1,877
Fair value of plan assets, beginning of year	**$ 2,678**	$ 2,581	$ 2,207
Actual return on plan assets	**305**	184	452
Bank contributions	**27**	19	14
Voluntary employee contributions	**4**	5	5
Benefits paid to pensioners	**(169)**	(151)	(116)
Other, primarily foreign exchange	**(20)**	40	19
Fair value of plan assets, end of year	**2,825**	2,678	2,581
Funded status	**802**	553	704
Unrecognized net (gain) from past experience different from that assumed and effects of changes in actuarial assumptions	**(451)**	(226)	(397)
Prior period employee service costs not yet recorded	**53**	52	56
Unrecognized transition amount	**(1)**	(1)	(2)
Prepaid pension expense	**$ 403**	$ 378	$ 361

As at October 31, 1999, the pension plan assets consisted of equities (70%) and fixed income investments (30%).

Our annual pension expense is set out in the following table:

	1999	1998	1997
Annual Pension Expense			
Net pension expense includes the following components:			
Actual investment return on plan assets	**$ (304)**	$ (182)	$ (453)
Excess of our actual over planned return	**94**	29	230
Planned return on plan assets	**(210)**	(153)	(223)
Pension benefits earned by employees	**76**	73	61
Interest cost accrued on our projected pension benefit obligation	**161**	153	140
Amortization of prior service costs	**13**	9	9
Amortization of transition amount	**–**	–	(9)
Amortization of prior year actuarial (gain) loss	**(24)**	(83)	53
Annual pension expense	**16**	(1)	31
Canada and Quebec pension plan contribution	**41**	34	26
Total annual pension expense	**$ 57**	$ 33	$ 57
Weighted Average Actuarial Assumptions			
Discount rate for projected benefit obligation	**8.1%**	7.6%	7.9%
Rate of compensation increase	**3.8**	3.8	3.9
Expected long-term rate of return on pension plan assets	**8.4**	8.1	8.2

The cost of post-retirement life insurance, health and dental care benefits reported in employee benefits expense was $18 in 1999, $11 in 1998 and $11 in 1997.

Note 18 Related Party Transactions

We provide banking services to our subsidiary companies on the same terms that we offer to our customers. In addition, we make loans to current and former directors, officers and employees at various rates and terms. The interest earned on these loans is recorded in interest, dividend and fee income in our Consolidated Statement of Income.

The amounts outstanding under these loan agreements are:

	1999	1998
Mortgage loans	**$ 664**	$ 745
Personal loans	**351**	344
Total	**$ 1,015**	$ 1,089

Note 19 Risk Management

Our business necessitates the management of several categories of risk including credit, market, liquidity and operational risks. Certain information about our exposure to these risks such as the allowance for credit losses, trading revenue, derivative financial instruments and fair value of financial instruments are set out in the consolidated financial statements. A summary of our interest rate gap position and effective interest rates on our financial instrument assets and liabilities is set out on page 63 of our Management Analysis of Operations.

Note 20 Contingent Liabilities

(a) Legal Proceedings

Nesbitt Burns Inc., an indirect subsidiary of the Bank of Montreal, has been named as a defendant in several class and individual actions in Canada and a class action in the United States brought on behalf of shareholders of Bre-X Minerals Ltd. ("Bre-X"). Other defendants named in one or more of these actions include Bre-X, officers and directors of Bre-X, mining consulting firms retained by Bre-X, Bre-X's financial advisor and brokerage firms which sold Bre-X common stock. The actions are largely based on allegations of negligence, negligent or fraudulent misrepresentation and breaches of the *U.S. Securities Exchange Act of 1934*, in connection with the sale of Bre-X securities. All of the actions are at a very preliminary stage. Based upon information presently available, counsel for Nesbitt Burns Inc. are not in a position to express an opinion as to the likely outcome of any of these actions. Management is of the view that the Company has strong defences and will vigorously defend against all such actions.

The Bank and its subsidiaries are party to other legal proceedings in the ordinary course of their businesses. Management does not expect the outcome of any of these other proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or results of the Bank's operations.

(b) Year 2000

Many computer systems process data based on storing two digits for the year of a transaction rather than all four digits. Systems that process year 2000 data with the year "00" may encounter significant processing inaccuracies and even inoperability before, on or after January 1, 2000. We have undertaken an enterprise-wide initiative to address the year 2000 issue and have implemented a comprehensive plan to prepare, as appropriate, our date-sensitive systems to recognize the change. However, it is not possible to be sure that all aspects of the year 2000 issue that may affect us, including those related to the efforts of customers, suppliers or other third parties with whom we conduct business, will not have a material impact on our operations.

(c) Pledged Assets

In the normal course of our business, we pledge assets as security for various liabilities that we incur. We had pledged investment and trading account securities and other assets totalling $36,772 as at October 31, 1999 and $39,097 as at October 31, 1998 as security for call loans, securities sold but not yet purchased, securities sold under repurchase agreements and other secured liabilities. Additionally, we had deposited assets in the amount of $2,699 as at October 31, 1999 and $2,013 as at October 31, 1998 to act as security for our participation in clearing and payment systems and as security for contract settlements with derivatives exchanges or other derivative counterparties.

Note 21 Derivative Financial Instruments

We enter into interest rate, foreign exchange, equity and commodity contracts to enable customers to manage risk, and for asset/liability management purposes where we manage our on- and off-balance sheet positions.

Customer trading derivative transactions are comprised of sales and other activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to transfer, modify or reduce current or expected risks. Other activities include market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products.

Customer trading derivatives are marked to market. Realized and unrealized gains and losses are recorded in other income. A portion of the income derived from marking derivatives to market in respect of credit risk premiums and administrative costs is deferred and amortized to income over the life of the contracts. Unrealized gains on trading derivatives are recorded in other assets and unrealized losses are recorded in other liabilities.

Asset/liability management derivatives are those instruments that are designated and documented as effective as hedges. We use these instruments to manage exposures in accordance with our risk management strategy. For a hedge to be effective, changes in the market value of the derivative must be highly correlated with changes in the market value of the underlying hedged item at inception and over the life of the hedge. Swaps, forwards and options, which are used for such purposes, are accounted for on the accrual basis, under which income and expense from the derivative instrument is accrued and there is no recognition of unrealized gains and losses on the derivative in the balance sheet. For swaps and forwards, interest income and expense from the hedging instrument is accrued and recorded as an adjustment to the income or expense related to the hedged position. Premiums on purchased options are amortized over the life of the contract to the income or expense line associated with the hedged position. Accrued interest receivable and payable and deferred gains and losses are recorded in other assets or other liabilities as appropriate. Realized gains and losses from the settlement or the early termination of contracts are deferred and amortized over the remaining life of the hedging instrument. Subsequent changes in the fair value of instruments identified as hedges, but which are no longer effective as hedges, are redesignated as customer trading and are reported in other income.

Derivatives transactions, which are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets, include:

Swaps

Swaps are contractual agreements between two parties to exchange a series of cash flows.

For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. The main risks associated with these instruments are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of assets and liabilities.

For cross-currency swaps, fixed interest payments and notional amounts are exchanged in different currencies.

For cross-currency interest rate swaps, principal amounts and fixed and floating interest payments are exchanged in different currencies.

For commodity swaps, counterparties generally exchange fixed and floating rate payments based on a notional value in a single commodity.

Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining. Risks arise from the possible inability of over-the-counter counterparties to meet the terms of their contracts and from movements in securities values, interest rates and foreign exchange rates.

We periodically use forward exchange contracts to hedge contractual U.S. dollar revenues to minimize fluctuations in U.S. dollar earnings. These forward exchange contracts mature monthly as related revenues are recognized. The unrecognized gain associated with these forward contracts was $5.9 as at October 31, 1999 and the unrecognized loss was $0.3 as at October 31, 1998.

Options

Options are contractual agreements that convey the right but not the obligation to either buy or sell a specific amount of a currency, commodity or financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period.

For options written by us, we receive a premium from the purchaser for accepting market risk. For options purchased by us, a premium is paid for the right to exercise the option, but we sustain credit risk due to the uncertainty as to the writer's ability to fulfill the conditions of the contract. Also included in options are caps, collars and floors, which are contractual agreements where the writer agrees to pay the purchaser, based on a specified notional amount, the agreed upon difference between the market rate and the prescribed rate of the cap, collar or floor. The writer receives a premium for selling this instrument.

We conduct our trading activities through business units dealing in both on- and off-balance sheet positions, including derivatives, which are marked to market. The revenue generated by these units is disclosed on page 31 of our Management Analysis of Operations.

Losses incurred on defaults of counterparties charged to the allowance for credit losses in the years ended October 31, 1999, 1998 and 1997 were not significant.

The effect of asset/liability management derivatives on net interest income and the net amount of deferred realized losses was:

	1999	1998	1997
Asset/Liability Management Derivatives			
Increase (decrease) in net interest income	$ 27	$ 37	$ 89
Deferred realized (losses)	$ (1)	$ (15)	$ (14)

The following table summarizes our derivative portfolio and related credit exposure:

Notional amount: represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost: represents the cost of replacing, at current market rates, all contracts which have a positive fair value, in effect the unrealized gains. Derivative instruments transacted through exchanges are subject to daily margin requirements. Such instruments are excluded from the calculation of risk-weighted assets as they are deemed to have no additional credit risk. The amounts take into consideration offsetting, when we have a legally enforceable right to offset and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Credit risk equivalent: represents the total replacement cost and potential future credit exposure, taking into consideration offsetting as permitted by the Superintendent of Financial Institutions Canada.

Risk-weighted balance: represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by the Superintendent of Financial Institutions Canada.

	1999						1998					
	Notional amount						Notional amount					
	Customer trading	Asset/ liability manage-ment	Total	Replace-ment cost	Credit risk equivalent	Risk-weighted balance	Customer trading	Asset/ liability manage-ment	Total	Replace-ment cost	Credit risk equivalent	Risk-weighted balance
Interest Rate Contracts												
Over-the-counter												
Swaps	$ 356,803	$ 39,630	$ 396,433	$ 3,481	$ 2,573	$ 750	$ 265,231	$ 38,381	$ 303,612	$ 4,077	$ 2,745	$ 831
Forward rate agreements	128,706	8,239	136,945	78	61	15	114,658	727	115,385	103	86	19
Purchased options	82,838	1,848	84,686	556	1,158	274	33,257	1,195	34,452	284	400	107
Written options	53,565	–	53,565	–	–	–	36,673	–	36,673	–	–	–
	621,912	49,717	671,629	4,115	3,792	1,039	449,819	40,303	490,122	4,464	3,231	957
Exchange traded												
Futures	89,908	7,176	97,084	–	–	–	57,317	3,310	60,627	–	–	–
Purchased options	22,109	–	22,109	–	–	–	16,050	–	16,050	–	–	–
Written options	17,916	–	17,916	–	–	–	12,629	–	12,629	–	–	–
	129,933	7,176	137,109	–	–	–	85,996	3,310	89,306	–	–	–
Total Interest Rate Contracts	751,845	56,893	808,738	4,115	3,792	1,039	535,815	43,613	579,428	4,464	3,231	957
Foreign Exchange Contracts												
Over-the-counter												
Cross-currency swaps	14,884	–	14,884	140	783	333	5,345	–	5,345	191	360	120
Cross-currency interest rate swaps	33,937	5,959	39,896	867	1,449	347	25,433	3,165	28,598	718	1,259	302
Forward foreign exchange contracts	184,238	10,578	194,816	2,954	3,296	960	265,912	9,257	275,169	5,934	5,674	1,738
Purchased options	32,994	–	32,994	549	820	221	38,381	–	38,381	1,147	1,494	438
Written options	38,618	–	38,618	–	–	–	45,025	–	45,025	–	–	–
	304,671	16,537	321,208	4,510	6,348	1,861	380,096	12,422	392,518	7,990	8,787	2,598
Exchange traded												
Futures	1,360	–	1,360	–	–	–	1,655	–	1,655	–	–	–
Purchased options	621	–	621	–	–	–	2,615	–	2,615	–	–	–
Written options	294	–	294	–	–	–	421	–	421	–	–	–
	2,275	–	2,275	–	–	–	4,691	–	4,691	–	–	–
Total Foreign Exchange Contracts	306,946	16,537	323,483	4,510	6,348	1,861	384,787	12,422	397,209	7,990	8,787	2,598
Commodity Contracts												
Over-the-counter												
Swaps	12,534	–	12,534	454	1,274	604	7,611	–	7,611	203	666	313
Purchased options	7,065	–	7,065	480	991	470	3,151	–	3,151	167	426	197
Written options	9,425	–	9,425	–	–	–	3,530	–	3,530	–	–	–
	29,024	–	29,024	934	2,265	1,074	14,292	–	14,292	370	1,092	510
Exchange traded												
Futures	1,187	–	1,187	–	–	–	652	–	652	–	–	–
Purchased options	2,026	–	2,026	–	–	–	538	–	538	–	–	–
Written options	2,612	–	2,612	–	–	–	629	–	629	–	–	–
	5,825	–	5,825	–	–	–	1,819	–	1,819	–	–	–
Total Commodity Contracts	34,849	–	34,849	934	2,265	1,074	16,111	–	16,111	370	1,092	510
Equity Contracts												
Over-the-counter	2,363	144	2,507	10	43	16	10	88	98	8	16	7
Exchange traded	956	–	956	–	–	–	905	–	905	–	–	–
Total Equity Contracts	3,319	144	3,463	10	43	16	915	88	1,003	8	16	7
Total	$ 1,096,959	$ 73,574	$ 1,170,533	$ 9,569	$ 12,448	$ 3,990	$ 937,628	$ 56,123	$ 993,751	$ 12,832	$ 13,126	$ 4,072

Included in the notional amounts is $8,888 as at October 31, 1999 and $18,076 as at October 31, 1998 related to the Managed Futures Certificates of Deposit Program. Risk exposures represented by the assets in this program are traded on behalf of customers with all gains and losses accruing to them.

Replacement cost is the total of unrealized gains and amounts receivable on derivative contracts. We excluded exchange traded instruments with unrealized gains of $207 as at October 31, 1999 and $172 as at October 31, 1998 because we are not required to provide capital against these instruments. Included in the total are unrealized gains on asset/liability management derivatives which we include in the Consolidated Balance Sheet on an accrual rather than market basis. The excess of market value over book value for these items was $181 as at October 31, 1999 and $452 as at October 31, 1998.

One technique that we use to reduce credit exposure is master netting agreements with customers, which allow us to net amounts due to/from a customer should the customer default on a contract. The potential reduction in replacement cost under master netting agreements was $2,658 as at October 31, 1999 and $4,715 as at October 31, 1998.

Transactions are conducted with counterparties in various geographic locations and industries. Based upon the ultimate risk, the replacement cost of contracts is recorded from customers located in:

	1999		1998	
Canada	**$ 1,930**	**20%**	$ 3,554	28%
United States	**4,437**	**46**	4,349	34
Mexico	**70**	**1**	16	–
Other countries	**3,132**	**33**	4,913	38
Total	**$ 9,569**	**100%**	$ 12,832	100%

The replacement cost of contracts is recorded from customers in the following industries:

	1999								1998							
	Interest rate contracts		**Foreign exchange contracts**		**Commodity contracts**		**Equity contracts**		Interest rate contracts		Foreign exchange contracts		Commodity contracts		Equity contracts	
Financial institutions	**$ 3,783**	**92%**	**$ 3,680**	**82%**	**$ 236**	**25%**	**$ 4**	**37%**	$ 3,778	85%	$ 6,495	81%	$ 90	24%	$ 8	100%
Other	**332**	**8**	**830**	**18**	**698**	**75**	**6**	**63**	686	15	1,495	19	280	76	–	–
Total	**$ 4,115**	**100%**	**$ 4,510**	**100%**	**$ 934**	**100%**	**$ 10**	**100%**	$ 4,464	100%	$ 7,990	100%	$ 370	100%	$ 8	100%

Set out below are the maturities and weighted average interest rates paid and received on interest rate contracts:

	Term to maturity										1999	1998
	Within 1 year	**Rate %**	**1 to 3 years**	**Rate %**	**3 to 5 years**	**Rate %**	**5 to 10 years**	**Rate %**	**Over 10 years**	**Rate %**	**Total notional amount**	Total notional amount
Interest Rate Contracts												
Fixed/Floating Swaps												
Canadian $ pay fixed	**$ 28,181**	**5.18**	**$ 14,773**	**5.73**	**$ 11,142**	**5.96**	**$ 4,161**	**6.06**	**$ 385**	**5.76**	**$ 58,642**	$ 56,452
Canadian $ receive fixed	**27,629**	**5.28**	**17,593**	**5.82**	**13,278**	**5.88**	**11,884**	**5.81**	**592**	**5.98**	**70,976**	70,531
US $ pay fixed	**36,619**	**5.73**	**20,997**	**5.91**	**11,042**	**5.95**	**9,856**	**6.24**	**1,643**	**6.93**	**80,157**	60,384
US $ receive fixed	**31,452**	**5.52**	**17,598**	**5.88**	**11,136**	**5.80**	**9,589**	**5.99**	**1,455**	**6.92**	**71,230**	55,735
Basis swaps	**6,772**	**na**	**6,622**	**na**	**857**	**na**	**4,988**	**na**	**294**	**na**	**19,533**	5,700
Other swaps	**38,334**	**na**	**36,327**	**na**	**9,055**	**na**	**11,992**	**na**	**187**	**na**	**95,895**	54,810
Total interest rate swaps	**168,987**		**113,910**		**56,510**		**52,470**		**4,556**		**396,433**	303,612
Forward rate agreements, futures and options	**310,277**	**na**	**48,040**	**na**	**12,349**	**na**	**38,854**	**na**	**2,785**	**na**	**412,305**	275,816
Total Interest Rate Contracts	**479,264**	**na**	**161,950**	**na**	**68,859**	**na**	**91,324**	**na**	**7,341**	**na**	**808,738**	579,428
Foreign Exchange Contracts												
Cross-currency swaps	**1,253**	**na**	**766**	**na**	**10,251**	**na**	**2,176**	**na**	**438**	**na**	**14,884**	5,345
Cross-currency interest rate swaps	**11,924**	**na**	**12,049**	**na**	**6,759**	**na**	**8,208**	**na**	**956**	**na**	**39,896**	28,598
Forward foreign exchange contracts, futures and options	**258,413**	**na**	**8,721**	**na**	**1,056**	**na**	**497**	**na**	**16**	**na**	**268,703**	363,266
Total Foreign Exchange Contracts	**271,590**	**na**	**21,536**	**na**	**18,066**	**na**	**10,881**	**na**	**1,410**	**na**	**323,483**	397,209
Commodity Contracts												
Swaps	**7,854**	**na**	**3,948**	**na**	**519**	**na**	**213**	**na**	**–**	**na**	**12,534**	7,611
Futures and options	**19,722**	**na**	**2,503**	**na**	**83**	**na**	**7**	**na**	**–**	**na**	**22,315**	8,500
Total Commodity Contracts	**27,576**	**na**	**6,451**	**na**	**602**	**na**	**220**	**na**	**–**	**na**	**34,849**	16,111
Total Equity Contracts	**3,229**	**na**	**16**	**na**	**173**	**na**	**45**	**na**	**–**	**na**	**3,463**	1,003
Total	**$ 781,659**	**na**	**$ 189,953**	**na**	**$ 87,700**	**na**	**$ 102,470**	**na**	**$ 8,751**	**na**	**$1,170,533**	$ 993,751

na = not applicable as weighted average rates are not meaningful.

US $ amounts are presented in Canadian $ equivalents.

Rates represent the weighted average interest rates which we are contractually committed to pay/receive until the swap matures. The floating side of substantially all Canadian $ swaps is based on the one-month or three-month Canadian Bankers' Acceptance Rate. For US $ swaps the floating side is generally based on the one-month, three-month or six-month London Interbank Offered Rate.

Basis swaps are floating interest rate swaps where amounts paid and received are based on different indices or pricing periods.

Other swaps are contracts where the fixed side is denominated in a source currency other than Canadian $ or US $.

The following table provides the fair value of our derivative financial instruments portfolio, which is represented by the sum of net unrealized gains and losses, accrued interest receivable or payable and premiums paid or received.

	1999							1998		
	Customer trading			Asset/liability management			Total	Customer trading	Asset/liability management	Total
	Gross assets	Gross liabilities	Net	Gross assets	Gross liabilities	Net	Net	Net	Net	Net
Interest Rate Contracts										
Swaps	$ 2,999	$ (3,231)	$ (232)	$ 482	$ (231)	$ 251	$ 19	$ (30)	$ 139	$ 109
Forward rate agreements	76	(91)	(15)	2	(3)	(1)	(16)	5	–	5
Futures	20	(6)	14	–	–	–	14	22	–	22
Purchased options	563	–	563	1	–	1	564	274	19	293
Written options	–	(462)	(462)	–	(14)	(14)	(476)	(251)	(3)	(254)
Foreign Exchange Contracts										
Cross-currency swaps	140	(63)	77	–	–	–	77	70	–	70
Cross-currency interest rate swaps	858	(876)	(18)	9	(282)	(273)	(291)	(847)	(373)	(1,220)
Forward foreign exchange contracts	2,913	(2,374)	539	40	(68)	(28)	511	1,111	(28)	1,083
Futures	–	–	–	–	–	–	–	–	–	–
Purchased options	554	–	554	–	–	–	554	1,238	–	1,238
Written options	–	(490)	(490)	–	–	–	(490)	(995)	–	(995)
Commodity Contracts										
Swaps	454	(415)	39	–	–	–	39	(22)	–	(22)
Futures	–	(1)	(1)	–	–	–	(1)	(1)	–	(1)
Purchased options	630	–	630	–	–	–	630	193	–	193
Written options	–	(425)	(425)	–	–	–	(425)	(165)	–	(165)
Equity Contracts	29	(153)	(124)	6	(3)	3	(121)	10	(6)	4
Total Fair Value	$ 9,236	$ (8,587)	$ 649	$ 540	$ (601)	$ (61)	$ 588	$ 612	$ (252)	$ 360
Total Book Value	$ 9,236	$ (8,587)	$ 649	$ 359	$ (442)	$ (83)	$ 566	$ 612	$ (193)	$ 419
Average Fair Value	$ 9,599	$ (8,958)	$ 641	$ 652	$ (764)	$ (112)	$ 529	$ 176	$ 40	$ 216

In order to calculate fair values:

- Instruments are marked to market using quoted market rates and/or zero coupon valuation techniques.
- Zero coupon curves are created using generally accepted mathematical processes from underlying instruments such as cash, bonds, futures and off-balance sheet prices observable in the market.
- Options volatilities are either obtained directly from market sources or implied from market prices utilizing a modified Black-Scholes Option Pricing algorithm.

Assets are shown net of liabilities to customers where we have an enforceable right to offset amounts and we intend to settle contracts on a net basis.

Note 22 Fair Value of Financial Instruments

As a financial institution we record trading assets at market values and non-trading assets and liabilities at their original amortized cost less allowances or write-downs for impairment. Fair value is subjective in nature, requiring a variety of valuation techniques and assumptions. The values are based upon the estimated amounts for individual assets and liabilities and do not include an estimate of the fair value of any of our legal entities or underlying operations that comprise our business.

Fair value amounts generally represent our estimate of the amounts we could exchange the financial instruments for with third parties who would be interested in acquiring the instruments. In most cases, however, the financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. In those cases, we have estimated fair value assuming that we will not sell the assets or liabilities, taking into account only changes in interest rates and credit risk that have occurred since we acquired them or entered into a contract.

Interest rate changes are the main cause of change in the fair value of our financial instruments.

Set out below is a comparison of the amounts which would be reported if all of our financial instrument assets and liabilities were reported at their fair values:

	1999				1998			
	Book value	**Fair value of assets and liabilities**	**Fair value of ALM derivatives**	**Fair value over (under) book value**	Book value	Fair value of assets and liabilities	Fair value of ALM derivatives	Fair value over (under) book value
Assets								
Cash resources	**$ 24,036**	**$ 24,036**	**$ (10)**	**$ (10)**	$ 19,730	$ 19,730	$ (233)	$ (233)
Securities (note 3)	**43,273**	**42,733**	**39**	**(501)**	43,465	43,634	–	169
Loans	**138,001**	**136,832**	**(66)**	**(1,235)**	129,691	129,856	344	509
Customers' liability under acceptances	**6,753**	**6,753**	**–**	**–**	6,944	6,944	–	–
Other assets	**16,324**	**16,324**	**–**	**–**	20,449	20,449	–	–
	228,387	**226,678**	**(37)**	**(1,746)**	220,279	220,613	111	445
Liabilities								
Deposits	**156,874**	**156,710**	**(97)**	**(261)**	143,983	144,365	192	574
Acceptances	**6,753**	**6,753**	**–**	**–**	6,944	6,944	–	–
Securities sold but not yet purchased	**10,450**	**10,450**	**–**	**–**	7,843	7,843	–	–
Securities sold under repurchase agreements	**24,177**	**24,177**	**–**	**–**	29,758	29,758	–	–
Other liabilities	**16,668**	**16,674**	**–**	**6**	18,663	18,678	–	15
Subordinated debt	**4,712**	**4,851**	**38**	**177**	4,791	5,170	(22)	357
	$ 219,634	**$ 219,615**	**$ (59)**	**$ (78)**	$ 211,982	$ 212,758	$ 170	$ 946
Total				**$ (1,668)**				$ (501)

ALM = asset/liability management derivatives which we use to manage the interest rate and foreign exchange exposures arising from our on-balance sheet positions.

The following sets out the valuation methods and assumptions that we have used to estimate fair values:

Due to the short-term nature of certain assets and liabilities, we believe that the book value is comparable to the estimated fair value. These assets and liabilities include:

- Customers' liability under acceptances
- Other assets
- Acceptances
- Securities sold but not yet purchased
- Securities sold under repurchase agreements
- Other liabilities, excluding liabilities of subsidiaries, other than deposits.

The fair values of loans are determined using a variety of valuation methods, depending on the nature of the loan:

- Fair value of loans to and past due interest bonds of designated countries, as defined in note 4, is based on quoted market rates;
- Fair value of performing loans is calculated by adjusting the original value of the loan for changes in credit risk and interest rates since the time we granted the loan; and
- Fair value of impaired loans is equal to the book value which is calculated using the basis of valuation described in notes 4 and 5.

The fair value of our deposits is determined by discounting the cash flows to be paid on the deposits using market interest rates currently offered for similar deposits.

The fair value of our subordinated debt and liabilities of subsidiaries is determined by referring to current market prices for similar debt instruments.

Our estimates of fair values are calculated based on our current pricing policy, the economic and competitive environment and the characteristics of the financial instruments. Our calculations are subjective in nature and require us to make significant assumptions. Tax implications, if any, are excluded from the calculations.

Premises and equipment are not financial instruments and have been excluded from our estimate of fair value. The net amounts excluded totalled $2,228 as at October 31, 1999 and $2,311 as at October 31, 1998.

Note 23 Reconciliation of Canadian and United States Generally Accepted Accounting Principles

We prepare our consolidated financial statements in accordance with generally accepted accounting principles (referred to as "GAAP") in Canada, including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada. Set out below are the more significant differences which would result if United States generally accepted accounting principles were applied in the preparation of our consolidated financial statements.

Condensed Consolidated Balance Sheet
As at October 31 (Canadian $ in millions)

	1999			1998		
	Canadian GAAP	**Increase (Decrease)**	**United States GAAP**	Canadian GAAP	Increase (Decrease)	United States GAAP
Assets						
Cash Resources	**$ 24,036**	**$ –**	**$ 24,036**	$ 19,730	$ –	$ 19,730
Securities	**43,273**	**(312)**	**42,961**	43,465	412	43,877
Loans, net of the allowance for credit losses	**138,001**	**–**	**138,001**	129,691	–	129,691
Other	**25,305**	**113**	**25,418**	29,704	(196)	29,508
Total Assets	**$ 230,615**	**$ (199)**	**$ 230,416**	$ 222,590	$ 216	$ 222,806
Liabilities and Shareholders' Equity						
Deposits	**$ 156,874**	**$ –**	**$ 156,874**	$ 143,983	$ –	$ 143,983
Other Liabilities	**58,048**	**179**	**58,227**	63,208	143	63,351
Subordinated Debt	**4,712**	**–**	**4,712**	4,791	–	4,791
Shareholders' Equity (1)	**10,981**	**(378)**(5)	**10,603**	10,608	73(5)	10,681
Total Liabilities and Shareholders' Equity	**$ 230,615**	**$ (199)**	**$ 230,416**	$ 222,590	$ 216	$ 222,806

Condensed Consolidated Statement of Income
For the Year Ended October 31 (Canadian $ in millions except per share amounts)

	1999			1998			1997		
	Canadian GAAP	**Increase (Decrease)**	**United States GAAP**	Canadian GAAP	Increase (Decrease)	United States GAAP	Canadian GAAP	Increase (Decrease)	United States GAAP
Interest, Dividend and Fee Income	**$ 13,174**	**$ (34)**(2)	**$ 13,140**	$ 14,121	$ (8)(2)	$ 14,113	$ 11,534	$ (40)(2)	$ 11,494
Interest Expense	**8,895**	**–**	**8,895**	10,097	–	10,097	7,457	–	7,457
Net Interest Income	**4,279**	**(34)**	**4,245**	4,024	(8)	4,016	4,077	(40)	4,037
Provision for credit losses	**320**	**–**	**320**	130	–	130	275	–	275
Net Interest Income After Provision for Credit Losses	**3,959**	**(34)**	**3,925**	3,894	(8)	3,886	3,802	(40)	3,762
Other Income	**3,511**	**(15)**(3)	**3,496**	3,118	130(3)	3,248	2,981	7(3)	2,988
Net Interest and Other Income	**7,470**	**(49)**	**7,421**	7,012	122	7,134	6,783	(33)	6,750
Total non-interest expense before restructuring charge	**5,147**	**161**(4)	**5,308**	4,785	207(4)	4,992	4,567	100(4)	4,667
Restructuring charge	**141**	**–**	**141**	–	–	–	–	–	–
Total non-interest expense	**5,288**	**161**	**5,449**	4,785	207	4,992	4,567	100	4,667
Income Before Provision for Income Taxes, Non-Controlling Interest in Subsidiaries and Goodwill	**2,182**	**(210)**	**1,972**	2,227	(85)	2,142	2,216	(133)	2,083
Income taxes	**736**	**(58)**	**678**	810	8	818	845	(30)	815
	1,446	**(152)**	**1,294**	1,417	(93)	1,324	1,371	(103)	1,268
Non-controlling interest	**21**	**–**	**21**	25	–	25	25	–	25
Net Income Before Goodwill	**1,425**	**(152)**	**1,273**	1,392	(93)	1,299	1,346	(103)	1,243
Amortization of goodwill, net of applicable income tax	**43**	**(43)**(4[viii])	**–**	42	(42)(4[viii])	–	41	(41)(4[viii])	–
Net Income	**$ 1,382**	**$ (109)**	**$ 1,273**	$ 1,350	$ (51)	$ 1,299	$ 1,305	$ (62)	$ 1,243
Net Income Per Common Share									
Basic	**$ 4.76**	**$(0.41)**	**$ 4.35**	$ 4.72	$ (0.20)	$ 4.52	$ 4.69	$ (0.23)	$ 4.46
Fully diluted	**4.72**	**(0.43)**	**4.29**	4.66	(0.21)	4.45	4.62	(0.25)	4.37

Consolidated Statement of Comprehensive Income
For the Year Ended October 31 (Canadian $ in millions)

	1999	1998	1997
Net Income (under United States GAAP)	**$ 1,273**	$ 1,299	$ 1,243
Other Comprehensive Income, net of tax:			
Unrealized gain (loss) on translation of net investment in foreign operations, net of hedging activities (a)	**(154)**	229	93
Unrealized holding gains (losses) arising on available for sale securities (b)	**(426)**	56	86
Reclassification adjustment for realized (gains) losses and write-downs on available for sale securities recognized in net income (c)	**49**	(56)	(30)
Total Other Comprehensive Income	**(531)**	229	149
Comprehensive Income	**$ 742**	$ 1,528	$ 1,392

(a) Net of income taxes of $168 (1998 – $231, 1997 – $88).
(b) Net of income taxes of $310 (1998 – $42, 1997 – $63).
(c) Net of income taxes of $36 (1998 – $41, 1997 – $22).

(1) The accumulated balances related to each component of other comprehensive income, net of tax, are as follows:

	1999	1998
Unrealized gain (loss) on translation of net investment in foreign operations, net of hedging activities	**$ 160**	$ 314
Net unrealized gains (losses) on available for sale securities (i)	**(182)**	195
Total Accumulated Other Comprehensive Income	**$ (22)**	$ 509

(i) Under United States GAAP, Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", we have designated as available for sale securities all of our investment securities, other than our investment in our associated corporations. Available for sale securities are carried at fair value, with any unrealized gains (losses) recognized through other comprehensive income. Under Canadian GAAP, investment securities are carried at amortized cost.

(2) Under United States GAAP, Emerging Issues Task Force No. 94-8, "Accounting for Conversion of a Loan into a Debt Security in a Debt Restructuring", the fair value of securities received in a restructuring as settlement of a claim for past-due interest on a loan should be recognized in income when received. Under Canadian GAAP, we record the securities at a nominal value when received and recognize any gains in income only when the securities are sold.

(3) Under United States GAAP, Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", gains on securitized assets are recognized at the date of securitization. Under Canadian GAAP, gains on securitized assets must be deferred and recognized over the life of the securitization.

(4) The impact of applying United States GAAP to non-interest expense before restructuring charge is as follows:

	1999	1998	1997
Increase (decrease)			
Foreign currency translation (i)	**$ 18**	$ 51	$ 12
Merger costs (ii)	**8**	27	–
Pension benefits (iii)	**36**	38	–
Other post-retirement benefits (iv)	**31**	33	37
Other post-employment benefits (v)	**5**	5	5
Stock options (vi)	**24**	13	8
Amortization of goodwill (vii)	**(10)**	(8)	(8)
Amortization of goodwill (viii)	**49**	48	46
Total	**$ 161**	$ 207	$ 100

(i) Under United States GAAP, Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation", Mexico was prescribed by the Securities and Exchange Commission to be a highly inflationary economic environment for our quarter beginning February 1, 1997 up to and including our quarter ended January 31, 1999. As a result, translation losses on our investment in Bancomer are required to be reported in net income under United States GAAP. Under Canadian GAAP, Mexico was not considered to be a highly inflationary economic environment during these periods.

(ii) Under United States GAAP, Accounting Principles Board Opinion No. 16, "Business Combinations", the costs associated with our proposed merger with Royal Bank are required to be reported in net income as incurred. Under Canadian GAAP, we treated these expenses as a reduction in retained earnings.

(iii) Under United States GAAP, Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions", we use a market discount rate to value our pension obligation which is a key component of our pension expense. Under Canadian GAAP, the rate used to discount our pension obligation is management's best estimate of the long-term rate of return on assets.

(iv) Under United States GAAP, Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", benefits paid to retirees, other than pension, must be accrued over the working lives of the employees. Under Canadian GAAP, we expense these costs as incurred.

(v) Under United States GAAP, Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits", benefits under various disability plans must be accrued when certain conditions are met. Under Canadian GAAP, we expense these costs as incurred.

(vi) Under United States GAAP, Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation", the fair value of stock options granted is recognized as compensation expense over the period that the options vest. Under Canadian GAAP, we include the amount of proceeds in shareholders' equity when the options are exercised.

(vii) Under United States GAAP, Accounting Principles Board Opinion No. 16, "Business Combinations", our acquisition of Suburban Bank Corp. would have been accounted for using the pooling-of-interests method. Under Canadian GAAP, we accounted for this purchase using the purchase method as this was not a merger of equals.

(viii) In Canada, the Accounting Standards Board has approved an addendum to "Business Combinations, Section No. 1580" that permits goodwill amortization expense to be presented net-of-tax on a separate line in the Consolidated Income Statement. This presentation is not currently permitted under United States GAAP but has been proposed in a Financial Accounting Standards Board Exposure Draft.

(5) Includes cumulative adjustment to shareholders' equity arising from current and prior years' GAAP differences.

Future Changes in United States Accounting Policies

In fiscal 2001, we will be required to adopt for United States reporting purposes, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement outlines accounting and reporting standards for derivative instruments and hedging activities. Under this standard, all derivatives will be recognized at fair value in the balance sheet, and changes in the fair value of these instruments will be accounted for depending on the intended use of each derivative and its designation as a hedge. Formal interpretations of this new standard continue to be issued by the Financial Accounting Standards Board. We are continuing to evaluate the potential implications of this new standard and the interpretations. Our analysis to date indicates that the effects of this Statement would not be material if we were to adopt it as of October 31, 1999. The ultimate effect to us, if any, of this standard is dependent on the fair value, nature, and purpose of derivative instruments held at November 1, 2000.

Statement of Management's Responsibility for Financial Information

The Bank's management is responsible for presentation and preparation of the annual consolidated financial statements, Management Analysis of Operations ("MAO") and all other information in the Annual Report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Securities and Exchange Commission in the United States. The financial statements also comply with the provisions of the Bank Act and related regulations, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The MAO has been prepared in accordance with the requirements of securities regulators including National Policy 47 of the Canadian Securities Administrators as well as Item 303 of Regulation S-K of the Securities Exchange Act, and their related published requirements.

The consolidated financial statements and information in the MAO necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MAO also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal control and internal audit including organizational and procedural controls and internal accounting controls. Our system of internal control includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements. In order to provide their opinion on our consolidated financial statements, the Shareholders' Auditors review our system of internal control and conduct their work to the extent that they consider appropriate.

The Board of Directors is responsible for reviewing and approving the financial information contained in the Annual Report, including the MAO, and overseeing management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions. The Board delegates these responsibilities to its Audit and Conduct Review Committees comprised of non-Bank directors and its Risk Review Committee.

The Shareholders' Auditors and the Bank's Chief Auditor have full and free access to the Board of Directors and its committees to discuss audit, financial reporting and related matters.

F. Anthony Comper
Chairman and
Chief Executive Officer

Robert B. Wells, C.A.
Executive Vice-President, Treasurer
and Chief Financial Officer

Shareholders' Auditors' Report

To the Shareholders of Bank of Montreal

We have audited the consolidated balance sheets of Bank of Montreal as at October 31, 1999 and 1998 and the related consolidated statements of income, changes in shareholders' equity and cash flow for each of the years in the three-year period ended October 31, 1999. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1999 and 1998 and the results of its operations and its cash flow for each of the years in the three-year period ended October 31, 1999 in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG LLP

KPMG LLP
Chartered Accountants

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

Canada
November 23, 1999

Bank Owned Corporations

Corporations in which the Bank owns more than 50% of the issued and outstanding voting shares	Head office	Percent of voting shares owned by the Bank	Book value of common and preferred shares owned by the Bank (Cdn $ in millions)
Bank of Montreal Assessoria e Serviços Ltda.	Rio de Janeiro, Brazil	100	–
Bank of Montreal Capital Corporation	Toronto, Canada	100	41
Bank of Montreal Capital Markets (Holdings) Limited	London, England	100	72
Bank of Montreal Europe Limited	London, England	100	
BMO Nesbitt Burns International Ltd.	London, England	100	
Bank of Montreal Finance Ltd.	Toronto, Canada	50.01	1
Bank of Montreal Global Capital Solutions Ltd.	Calgary, Canada	100	12
Bank of Montreal Holding Inc.	Calgary, Canada	100	3,128
Bank of Montreal Asia Limited	Singapore, Republic of Singapore	100	
Bank of Montreal Insurance (Barbados) Limited	Bridgetown, Barbados	100	
Bank of Montreal Securities Canada Limited	Toronto, Canada	100	
The Nesbitt Burns Corporation Limited and subsidiaries	Montreal, Canada	100	
BMO Investments Ltd.	Hamilton, Bermuda	100	
Bank of Montreal Investor Services Limited	Toronto, Canada	100	15
Bank of Montreal Ireland plc	Dublin, Ireland	100	1,037
Bank of Montreal Mortgage Corporation	Calgary, Canada	100	993
BMRI Realty Investments	Toronto, Canada	100	
Bank of Montreal (N.S.) Holdings Co.	Halifax, Canada	100	1,209
BMO (U.S.) Finance, LLC	Wilmington, United States	100	
Bankmont Financial Corp.	Wilmington, United States	100	3,946
Bank of Montreal Global Capital Solutions, Inc. and subsidiary	Wilmington, United States	100	
BMO Financial, Inc.	Wilmington, United States	100	
BMO Managed Investments Corporation	Chicago, United States	100	
BMO Nesbitt Burns Equity Group (U.S.), Inc. and subsidiaries	Chicago, United States	100	
EFS (U.S.), Inc. and subsidiaries	Chicago, United States	100	
Harris Bankcorp, Inc. and subsidiaries	Chicago, United States	100	
Harris Bankmont, Inc. and subsidiaries	Dover, United States	100	
Harris Trust/Bank of Montreal	West Palm Beach, United States	100	
Nesbitt Burns Securities Inc. and subsidiary	Chicago, United States	100	
BMO Ireland Finance Company	Dublin, Ireland	100	547
BMO Nesbitt Burns Equity Partners Inc.	Toronto, Canada	100	41
Cebra Inc.	Toronto, Canada	100	25
First Canadian Funds Inc.	Toronto, Canada	100	62
IMC Mortgage Company Canada, Ltd.	Toronto, Canada	100	6
Lakeshore Funding Company, LLC	Wilmington, United States	100	1,285
The Trust Company of Bank of Montreal	Toronto, Canada	100	27

The above is a list of our major operating companies. The book values of the corporations shown represent the total common and preferred equity value of our holdings.

We own 100% of the outstanding non-voting shares of subsidiaries except for Bank of Montreal Securities Canada Limited, of which we own 85.08% of the outstanding non-voting shares.

Statement of Corporate Governance Practices

Interest in the corporate governance of public corporations has never been greater, both within the financial community and among the investing public. Effective corporate governance is no longer confined to the realm of academic debate, nor is it viewed as peripheral to a company's real priorities. In today's business world, a board of directors with the independence, the authority and the information it needs to fulfil its responsibilities is seen as a primary resource for creating competitive advantage and, in turn, shareholder value in the global marketplace. At the same time, good corporate governance is increasingly seen as a continuous journey, not a destination. As companies benchmark each other's initiatives, standards will be driven even higher. Further, no single set of guidelines or procedures can meet the needs of every company. Opinions can and do legitimately differ on the best way to define the responsibilities of management and boards. These and similar issues are stimulating lively and productive public discussion.

Bank of Montreal is proud of its history of innovation in corporate governance, which was recognized in 1999 by the Award of Excellence for Leadership in Corporate Governance sponsored by the Canadian Institute of Chartered Accountants and the *National Post*. We believe our record over the last decade speaks for itself, but we also recognize that corporate governance is a rapidly advancing discipline. We will continue to enhance our corporate governance practices, whenever we are convinced that new initiatives will create value for our shareholders and, ultimately, for the communities we serve.

Best Practice Guidelines: Five Years of Steady Progress

In 1994 the Corporate Governance Committee of the Toronto Stock Exchange published a report entitled *Where Were the Directors?* on the state of corporate governance in public Canadian companies. The report made 14 recommendations on best practices, which were subsequently adopted by the TSE as guidelines for its listed companies. Each year, listed companies must disclose and explain any differences between their corporate governance practices and the TSE guidelines. In 1999, five years after the original report, the TSE published a study of compliance by its listed companies, which is in effect a "report card on corporate Canada." In these pages, Bank of Montreal gives its own "report card" on its compliance with the TSE guidelines.

The Board's Responsibility for Stewardship of the Bank

- The Board is responsible for ensuring that management develops a considered and creative strategic plan which takes into account market and regulatory realities. All-day strategy sessions offer directors the opportunity to gain a full appreciation of the Bank's planning priorities and to provide constructive feedback and direction to management as part of the Bank's strategic planning process.
- The Board, through its Risk Review Committee, is responsible for ensuring that the risk management framework implemented by management incorporates a prudent and professional approach to risk-taking. In 1999, the Bank's risk management program was further enhanced, including modifications to the scope of the Committee's mandate.
- The Board's Human Resources and Management Compensation Committee is responsible for overseeing all aspects of succession planning for senior management, including the succession to the position of C.E.O.
- The Bank has a comprehensive policy for communications with shareholders and other stakeholders. The policy incorporates current best practices and gives fair treatment to all shareholders, irrespective of the size of their holdings. On an ongoing basis, individual shareholder queries and problems are handled by a dedicated Shareholder Services Group, while for institutional investors, the Investor Relations Group provides the communications channel for their feedback and concerns to be received and addressed.
- The integrity of the Bank's internal control and management information systems is the responsibility of three Board Committees: the Audit Committee, the Conduct Review Committee and the Risk Review Committee.

The Independence and Effectiveness of the Board of Directors

- The Board has a significant majority of unrelated directors – only two of its 19 directors are related. One is the Chairman and Chief Executive Officer and the other is an officer of a company that is a client of the Bank. This proportion far exceeds the requirements of the Bank Act or the TSE guidelines. The number of unrelated directors is disclosed each year in the Annual Report and the Proxy Circular.
- At 19 members, the Board is small enough to ensure active and meaningful participation by all directors and at the same time large enough to ensure that the Board can draw on a wide range of skills and experience.
- The Governance Committee serves as a nominating committee for the Board. It is composed entirely of outside directors, all of whom are unrelated. Its mandate includes recommending suitable director candidates to the Board as well as establishing an appropriate Board committee structure and the mandates and membership of the committees themselves.
- The Governance Committee also has the specific and continuing responsibility for developing, implementing, reviewing and enhancing the Bank's approach to governance issues. In fulfilling this responsibility, the Committee monitors developments in corporate governance worldwide and recommends improved guidelines and procedures to the whole Board.
- Structures and procedures are in place to ensure that the Board can operate independently of management. The Chair of the Governance Committee serves as the lead director and chairs sessions of the Board, in management's absence, during every full meeting of the Board.
- Shareholder proposals are assessed by the Governance Committee, not by management, for their appropriateness for inclusion in the Proxy Circular. The Governance Committee also plays a key role in formulating the responses to individual shareholder proposals.
- All Board committees are composed of outside directors only, with the exception of the Executive Committee and the Risk Review Committee, both of which include the Chairman and C.E.O. as a member. Full particulars of the mandates and activities of Board Committees are set out in the Proxy Circular.
- As required by the Bank Act, the Audit Committee is composed exclusively of outside directors. Its mandate includes, in addition to responsibility for internal control procedures, the regulatory compliance program and the review of all investments or transactions that could materially adversely affect the Bank. The Committee meets regularly with the shareholders' auditors and the Office of the Superintendent of Financial Institutions.
- A comprehensive orientation program is in place for new members of the Board. On an ongoing basis, the annual strategy sessions previously described ensure that directors are kept fully apprised of the key elements and the underlying analysis supporting the strategic direction for the Bank.
- Procedures are in place whereby an outside director may engage an outside advisor at the expense of the Bank in appropriate circumstances. Under the direction of the Committee Chairs, Board committees engage independent consultants as needed and on their own initiative.
- A Board policy specifically provides that no more than two management directors may serve on the Board at any time.
- Approval/Oversight Guidelines define precisely and clearly the roles and responsibilities of the Board and management and explicitly delineate the lines of accountability that exist within the Bank. The Guidelines set out those matters requiring Board approval and those of which the Board must be advised following action by management; they cover all key areas of the Bank's operations including financial, risk management, human resources, marketing and planning, technology and infrastructure, and administration and compliance.

Accountability and Compensation of Directors

- The Board has defined its responsibilities and standards in a Charter of Expectations applicable to all its members. Comprehensive descriptions for the positions of Chairman and C.E.O. are in place, and the Board approves annual corporate objectives for the C.E.O. as a part of the annual assessment process.
- An annual assessment process is also in place for both the Board and individual directors. Directors are required to complete a comprehensive Annual Corporate Governance Survey covering such topics as the operation of the Board, the information provided to directors, Board structure, committee effectiveness, Board member participation, strategic direction and process issues. In addition, a Peer Feedback Survey for Directors, based upon the criteria set out in the Charter of Expectations, is conducted annually.
- The Bank has procedures to ensure that the compensation of directors is appropriate in relation to the responsibilities and risks involved. Directors' compensation is annually benchmarked against the Bank's Canadian and North American peer groups. Recommendations on the level and nature of compensation are made to the Board by the Governance Committee.
- It is especially significant that, to further align directors' compensation with the interests of shareholders, at least 50% of a director's annual retainer must be paid in Bank stock or in deferred share units, with an option to take 100% of both the retainer and any fees in this manner. In 1999, almost 90% of total director compensation was taken in Bank stock or deferred share units.
- Board policy requires that any director who in any fiscal year does not attend at least 75% of the aggregate of all Board meetings and relevant Committee meetings must tender his or her resignation, for acceptance or rejection by the Board. As well, directors whose principal occupation materially changes must submit their resignations to the Board. The Board has also adopted a mandatory retirement age of 70 for all directors.

As this Statement of Corporate Governance Practices confirms, the Bank not only continues to be in full compliance with the TSE guidelines but, in many respects, far exceeds them.

Directors and Officers – Bank of Montreal

as at October 31, 1999

Directors

F. Anthony Comper
Chairman and
Chief Executive Officer

Stephen E. Bachand
Toronto, Ont.
President and
Chief Executive Officer
Canadian Tire
Corporation, Limited

Ralph M. Barford
Toronto, Ont.
President
Valleydene Corporation Limited

David R. Beatty, O.B.E.
Toronto, Ont.
Chairman and
Chief Executive Officer
Old Canada Investment
Corporation Limited

Peter J.G. Bentley, O.C., LL.D.
Vancouver, B.C.
Chairman
Canfor Corporation

John F. Fraser, O.C., LL.D.
Winnipeg, Man.
Chairman
Air Canada

David A. Galloway
Toronto, Ont.
President and
Chief Executive Officer
Torstar Corporation

Eva Lee Kwok
Vancouver, B.C.
Chair and Chief Executive Officer
Amara International
Investment Corp.

J. Blair MacAulay
Oakville, Ont.
Counsel
Fraser Milner, Toronto

Ronald N. Mannix
Calgary, Alta.
Chairman
Coril Holdings Ltd.

The Honourable
Frank McKenna, P.C.
Cap Pelé, N.B.
Counsel
McInnes Cooper &
Robertson, Moncton

Robert H. McKercher, Q.C.
Saskatoon, Sask.
Senior Partner
McKercher McKercher
& Whitmore

Bruce H. Mitchell
Toronto, Ont.
President and
Chief Executive Officer
Permian Industries Limited

Eric H. Molson
Montreal, Que.
Chairman of the Board
The Molson Companies
Limited

Philip S. Orsino, F.C.A.
Caledon, Ont.
President and
Chief Executive Officer
Premdor Inc., Mississauga

Jeremy H. Reitman
Montreal, Que.
President
Reitmans (Canada) Limited

Joseph L. Rotman, O.C., LL.D.
Toronto, Ont.
Chairman and
Chief Executive Officer
Clairvest Group Inc.

Guylaine Saucier, C.M., F.C.A.
Montreal, Que.
Chairman, Board of Directors
Canadian Broadcasting
Corporation

Nancy C. Southern
Calgary, Alta.
Deputy Chairman and
Deputy Chief Executive Officer
ATCO Ltd. and
Canadian Utilities Limited

Honorary Directors

Charles F. Baird
Bethesda, Maryland, U.S.A.

Matthew W. Barrett, O.C., LL.D.
London, England

Claire P. Bertrand
Montreal, Que.

The Honourable
Sidney L. Buckwold, O.C.
Saskatoon, Sask.

Frederick S. Burbidge, O.C.
Frelighsburg, Que.

Pierre Côté, C.M.
Quebec City, Que.

C. William Daniel, O.C., LL.D.
Toronto, Ont.

Nathanael V. Davis
Osterville, Massachusetts, U.S.A.

Graham R. Dawson
Vancouver, B.C.

Louis A. Desrochers, M.C., c.r.
Edmonton, Alta.

John H. Devlin
Toronto, Ont.

A. John Ellis, O.C., LL.D., O.R.S.
Vancouver, B.C.

Thomas M. Galt
Toronto, Ont.

J. Peter Gordon, O.C.
Mississauga, Ont.

John H. Hale
London, England

G. Arnold Hart, M.B.E., C.M.
Mountain, Ont.

Donald S. Harvie, O.C.
Calgary, Alta.

Richard M. Ivey, O.C., Q.C.
London, Ont.

Betty Kennedy, O.C., LL.D.
Milton, Ont.

David Kinnear
Toronto, Ont.

Donald A. McIntosh, Q.C.
Toronto, Ont.

The Honourable
Hartland de M. Molson, O.C., O.B.E.
Montreal, Que.

William D. Mulholland, LL.D.
Georgetown, Ont.

Jerry E.A. Nickerson
North Sydney, N.S.

Lucien G. Rolland, O.C.
Montreal, Que.

Mary Alice Stuart, C.M., O.ONT., LL.D.
Toronto, Ont.

Lorne C. Webster
Montreal, Que.

Members of Management Board

F. Anthony Comper*
Chairman and
Chief Executive Officer

Margaret J. Barrett
Executive Vice-President and
President, Bank of Montreal
Mortgage Corporation
Personal & Commercial
Client Group

George D. Bothwell
Executive Vice-President
Corporate Marketing
& Communications

Yvan J.P. Bourdeau*
President and
Chief Operating Officer
Nesbitt Burns
Investment Banking Group

Ronald H. Call*
Senior Vice-President
Corporate Planning

Jeffrey S. Chisholm*
Vice-Chair, Personal &
Commercial Client Group

Ellen M. Costello
Executive Vice-President
Investment Banking Group

Lloyd F. Darlington*
Chief Technology Officer and
General Manager, Emfisys

Gary S. Dibb*
Vice-Chair, Corporate
Services and Organizational
Development

Keith O. Dorricott*
Vice-Chair, Office of Strategic
Management

William A. Downe*
Vice-Chair, Private Client Group
and Deputy Chair, Nesbitt Burns

Barry K. Gilmour
Executive Vice-President
Systems, Emfisys

Maurice A.D. Hudon
Executive Vice-President
Ontario Division
Personal & Commercial
Client Group

Terry A. Jackson
Executive Vice-President
Sales & Marketing
Personal & Commercial
Client Group

Marnie J. Kinsley
Executive Vice-President
and Chief Operating Officer
mbanx Direct
Personal & Commercial
Client Group

Louis F. Lanwermeyer
Executive Vice-President
Marketing and Product
Development, Harris Bank

Kathryn M. Lisson
Executive Vice-President
Information Technology
Planning & Strategy, Emfisys

Edward W. Lyman
Vice-Chair of the Board
Harris Bank

Neil R. Macmillan
Executive Vice-President
Asset Portfolio Management
Investment Banking Group

Michel G. Maila
Executive Vice-President
Risk Management Group

Alan G. McNally*
Chairman and
Chief Executive Officer
Harris Bank

L. Jacques Ménard
President, Bank of Montreal
Group of Companies, Quebec;
Managing Director
Nesbitt Burns, Quebec; and
Deputy Chair, Investment
Banking Group

Thomas V. Milroy
Head of Investment
& Corporate Banking
Nesbitt Burns
Investment Banking Group

Timothy J. O'Neill
Executive Vice-President and
Chief Economist

R. Jeffrey Orr*
Vice-Chair, Investment
Banking Group and
Chairman and
Chief Executive Officer
Nesbitt Burns

Gilles G. Ouellette*
President and Chief Operating
Officer, Private Client Group
and Deputy Chair, Nesbitt Burns

Rose M. Patten*
Executive Vice-President
Office of Strategic Management

Robert W. Pearce
Executive Vice-President
North American Electronic
Banking Services
Personal & Commercial
Client Group

Ronald G. Rogers*
Vice-Chair, Personal &
Commercial Client Group

Deanna Rosenswig
Executive Vice-President
Corporate & Commercial
Electronic Financial Services
Personal & Commercial
Client Group

Colin D. Smith
Executive Vice-President and
Senior Credit Officer
Personal & Commercial
Client Group

Harriet H. Stairs
Executive Vice-President
Human Resources

Brian J. Steck*
Vice-Chair

Eric C. Tripp
Head of Institutional Equity
Nesbitt Burns
Investment Banking Group

Robert B. Wells
Executive Vice-President
Chief Financial Officer and
Treasurer

*Member of Management Board
Executive Committee

Corporate Officers

Dereck M. Jones
Senior Vice-President and
General Counsel

Penelope F. Somerville
Senior Vice-President and
Corporate Controller

Johanne M. Totta
Senior Vice-President and
Chief Auditor

Christopher B. Begy
Vice-President and
Chief Accountant

Velma J. Jones
Vice-President and
Corporate Secretary

Glossary of Financial Terms

Allowance for Credit Losses
An amount set aside and deemed adequate by management to absorb potential credit-related losses in a bank's portfolio of loans, acceptances, guarantees, letters of credit, deposits with other banks and derivatives. Allowances for credit losses can be specific or general and are accounted for as deductions from the related assets in the financial statements.

Assets under Administration and under Management
Assets administered and/or managed by a financial institution that are beneficially owned by clients or investors and are therefore not reported on the balance sheet of the financial institution.

Average Earning Assets
This amount represents the daily or monthly average balance over a one-year period of deposits with other banks, loans and securities.

Bankers' Acceptance (BA)
A bill of exchange or negotiable instrument drawn by the borrower for payment at maturity and accepted by a bank. BAs constitute a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

Basis Point
One one-hundredth of a percentage point.

Collateralized Bond Obligation
Debt instrument supported by pool of high-yield or investment grade bonds.

Counterparty
The opposite side of any transaction, typically a bank's corporate or commercial clients or another financial institution. Counterparty risk refers to the risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction it has entered into.

Derivatives
A derivative is a contract whose value is "derived" from interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates, and equity and commodity prices. See also individual definitions of forwards and futures, forward rate agreements, options and swaps.

Duration
A measure of the average time interval required for an expected stream of cash flows to repay the original investment, i.e., shorter duration means faster recovery of the original investment.

Earnings at Risk
Earnings at Risk is the impact on net income over the following 12 months of a one-time change in market rates/prices.

Economic Value at Risk
Economic Value at Risk is the impact on the value of our assets and liabilities of a change in market rates/prices.

Forwards and Futures
Contractual agreements to either buy or sell a specified currency or financial instrument on a specified future date at a specified price. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Forward Rate Agreement (FRA)
A type of derivative obliging two parties to make a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional amount. An FRA can act as a hedge against future movements in market interest rates.

Group of Seven
This international group, also known as G-7, comprises the seven leading industrial democracies, namely Britain, Canada, France, Germany, Italy, Japan and the United States. The group was established in 1986 to coordinate economic and monetary policy.

Guarantees and Standby Letters of Credit
Primarily represent a bank's obligation to make payments to third parties on behalf of its clients if its clients are unable to make the required payments or meet other contractual requirements.

Hedge
A risk management technique used to neutralize/manage interest rate or foreign currency exchange exposures arising from normal banking operations.

Impaired Loans
Loans are classified as impaired when, in the opinion of management, there is no longer reasonable assurance of the timely collection of principal and interest. Interest on impaired loans is only recognized as interest revenue when management has reasonable assurance of the timely collection of the full amount of principal and interest.

Margining
Margins for futures contracts are money or securities used as an initial deposit as assurance that the contract will be fulfilled. Margining refers to adjustments made to the initial deposit as market movement causes the fair value of the instrument to fluctuate, possibly requiring additional deposits to be placed with the exchange.

Mark-to-Market
Valuation at market rates, as of the balance sheet date, of securities and derivatives held for trading purposes.

Net Interest Income
The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits and subordinated debentures.

Net Interest Margin
Average net interest margin is the ratio of net interest income to average assets.

Notional Amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of a derivative contract.

Off-Balance Sheet Financial Instrument
An asset or liability that is not recorded on the balance sheet, but has the potential to produce positive or negative cash flows in the future if a contingent event occurs. A variety of products offered to clients can be classified as off-balance sheet and they fall into two broad categories: (i) credit-related arrangements, which provide clients with liquidity protection, and (ii) derivatives.

Options
Contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period.

Over-the-Counter (OTC)
Trading that occurs outside of organized or regulated securities exchanges, carried out by broker-dealers who communicate with one another by telephone and quotation terminals. Prices on OTC instruments are negotiated between buying and selling brokers. Certain OTC instruments are traded in accordance with rules prescribed by self-regulating bodies.

Provision for Credit Losses
A charge to income which represents an appropriate expense given the composition of our credit portfolios, their probability of default, the economic environment and the allowance for credit losses already established. Specific provisions are established to reduce the book value of specific assets (primarily loans) to establish the amount expected to be recovered on the loans. A country risk provision is established for loans to and securities of countries identified by OSFI that have restructured or experienced difficulties in servicing all or part of their external debt to commercial banks. A general allowance for loan losses is established in recognition of the fact that not all of the impairment in a loan portfolio can be specifically identified on a loan-by-loan basis.

Regulatory Capital Ratios
The percentage of risk-weighted assets supported by capital, as defined by the Office of the Superintendent of Financial Institutions Canada (OSFI) under the framework of risk-based capital standards developed by the Bank for International Settlements. These ratios are labelled Tier 1 and Tier 2. Tier 1 capital is considered to be more permanent in nature, consisting of common shares together with any qualifying non-cumulative preferred shares less unamortized goodwill. Tier 2 capital consists of other preferred shares, subordinated debentures and general allowances.

Replacement Cost of Derivative Contracts
The cost of replacing a derivative contract that has a positive fair value at current market rates should a counterparty fail to settle.

Repurchase Agreement (Repo)
A type of transaction where a security is sold with the commitment by the seller to repurchase the security at a specified price and time.

Return on Equity (ROE)
This represents net income, less preferred share dividends, expressed as a percentage of average common shareholders' equity.

Reverse Repurchase Agreement (Reverse Repo)
See Securities Purchased under Resale Agreements.

Risk

Country Risk
Also known as sovereign risk, it is the risk that economic or political change in a country may impact repayments to creditor banks. This risk is considered higher for certain emerging market and lesser-developed countries specifically identified by OSFI.

Credit Risk
The possibility that a loss may be incurred in the event that borrowers or counterparties to financial instruments transacted with a bank will be unable to discharge their obligations under the instruments.

Foreign Exchange Risk
Foreign exchange risk refers to possible losses resulting from exchange rate movements. A foreign currency devaluation, for example, could result in losses on an overseas investment.

Interest Rate Risk
Interest rate risk is the potential impact on a bank's earnings and economic value due to changes in interest rates. Rising interest rates could, for example, increase funding costs and reduce the net interest margin earned on a fixed yield mortgage portfolio.

Liquidity Risk
Refers to potential demands on a bank for cash resulting from commitments to extend credit, deposit maturities and many other transactions.

Market Risk
Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity and commodity prices, spread and basis risk and the implied volatility of these rates and prices.

Operational Risk
The potential loss, including adverse impact on reputation, resulting from a breakdown in communications, information or transaction processing or legal/compliance issues, due to systems or procedural failures, error, natural disasters or criminal activity. This risk represents a bank's potential exposure to unexpected loss as a result of pursuing business objectives.

Replacement Risk
The risk that a financial contract will need to be replaced in the open market at a cost to the bank/enterprise.

Risk Adjusted Return On Capital (RAROC)
A measurement tool that enables management to allocate capital, and the related cost of capital, in respect of credit, market and operational risk by type of transaction, client and line of business. This facilitates the deployment of capital to business units that can provide the maximum shareholder value on the capital invested.

Risk-Weighted Assets
Used in the calculation of risk-based capital ratios. The face amount of assets is discounted using predetermined risk-weighting factors in order to reflect a comparable risk per dollar among all types of assets. Adjusting notional values to balance sheet (or credit) equivalents and then applying appropriate risk-weighting factors also recognizes the risk inherent in off-balance sheet instruments.

Securities Purchased under Resale Agreements
A type of transaction that involves the purchase of a security, normally a government bond, with the commitment by the buyer to resell the security to the original seller at a specified price on a specified date in the future.

Securities Sold Short
A transaction in which the seller sells securities it does not own. The seller borrows the securities in order to deliver them to the purchaser. At a later date, the seller buys identical securities in the market to replace the borrowed securities. On the balance sheet, this category represents our obligation to deliver securities that we did not own at the time of sale.

Spread
Spread is the difference between two product rates, typically an asset and a liability.

Swaps
Contractual agreements between two parties to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency interest rate swaps, principal amounts and fixed and floating rate interest payments are exchanged in different currencies.

Taxable Equivalent Basis (TEB) Adjustment
An addition to interest income to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at the statutory rate, would result in the same after-tax net income that appears in the financial statements. This results in a better reflection of the pre-tax economic yield of these assets and facilitates uniform measurement and comparison of net interest income.

Total Shareholder Return (TSR)
This amount is calculated as the annualized total return on an investment in our common shares made at the beginning of a designated period, usually one or five years. Total return on common shares includes the effect of a change in the share price and assumes that dividends received on common shares are reinvested in additional common shares.

Value at Risk (VaR)
VaR measures the adverse impact on the value of a portfolio, over a specified time period, of potential changes in market rates and prices. VaR is usually measured at a 99% confidence interval and assumes that changes in rates and prices are correlated.

Volatility
A term which generally refers to a measure of price variance, usually the standard deviation of returns from a security or a portfolio of securities over a specified period of time.

Shareholder Information

Common Stock Trading Information during 1999

Primary Stock Exchanges	Ticker	Year-end Price Oct. 31, 1999	High	Low	Total Volume of Shares Traded
Toronto/Montreal	BMO CN	**$ 56.65**	$ 69.60	$ 49.35	155.8 million
New York	BMO US	**US$ 38.0625**	US$ 45.8125	US$ 33.875	3.6 million

Dividends per Share Declared during Fiscal Year

Issue/Class	Ticker	Shares Outstanding at Oct. 31, 1999	1999	1998	1997	1996	1995
Common	BMO	267,032,100	**$ 1.88**	$ 1.76	$ 1.64	$ 1.48	$ 1.32
Preferred Class A							
Series 4 (a)	BMO D	–	**$ 1.87**	$ 2.25	$ 2.25	$ 2.25	$ 2.25
Series 5 (b)		–	**$ 522.26**	$ 19,062.50	$ 19,062.50	$ 19,062.50	$ 19,062.50
Preferred Class B							
Series 1	BMO E	10,000,000	**$ 2.25**	$ 2.25	$ 2.25	$ 2.25	$ 2.25
Series 2	BMO U	10,000,000	**US$ 1.6876**	US$ 1.6876	US$ 1.6876	US$ 1.6876	US$ 1.6876
Series 3	BMO F	16,000,000	**$ 1.3875**	$ 1.3875	$ 0.93145	–	–
Series 4 (c)	BMO G	8,000,000	**$ 1.20**	$ 0.8966	–	–	–
Series 5 (c)	BMO H	8,000,000	**$ 1.3250**	$ 0.99	–	–	–
Series 6 (c)	BMO I	10,000,000	**$ 1.1875**	$ 0.626019	–	–	–

(a) The Class A Preferred Shares Series 4 were redeemed on September 24, 1999.
(b) The Class A Preferred Shares Series 5 were redeemed on December 5, 1998.
(c) The Class B Preferred Shares were issued in February 1998 for Series 4 and 5, and in May 1998 for Series 6.

2000 Dividend Dates

Common and Preferred Shares Record Dates	Preferred Shares Payment Dates	Common Shares Payment Dates
February 4	February 25	February 28
May 5	May 25	May 30
August 4	August 25	August 30
November 3	November 27	November 29

The Bank Act prohibits a bank from paying or declaring a dividend if it is or would thereby be in contravention of capital adequacy regulations. Currently this limitation does not restrict the payment of dividends on the Bank's common or preferred shares.

Market for Securities of the Bank

The common shares of the Bank are listed on the Toronto, Montreal, Winnipeg, Alberta, Vancouver and New York stock exchanges and The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited, London, England ("London Stock Exchange"). The preferred shares of the Bank are listed on the Toronto, Montreal, Winnipeg, Alberta and Vancouver stock exchanges.

Distribution of Common Shares

As at October 31, 1999

Canada	87.7%
United States	8.1%
Other countries	4.2%
Total	100.0%

Registered shareholdings by geographic region based upon the residency of registered shareholders and declarations of beneficial ownership by depository participants.

Restraints on Ownership of Shares under the Bank Act

No person or group of associated persons may own more than 10% of any class of shares, and ownership of the Bank's shares by Canadian or foreign governments is prohibited.

Shareholder Administration

The Trust Company of Bank of Montreal, with transfer facilities in the cities of Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, serves as transfer agent and registrar for common and preferred shares. In addition, The Trust Company of Bank of Montreal and Harris Trust Company of New York serve as transfer agents and registrars for common shares in London, England and New York, respectively.

For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call the Bank's Transfer Agent and Registrar at 1-800-332-0095 (Canada and U.S.) or at (514) 877-2500 (international), or write to: The Trust Company of Bank of Montreal, 129 Saint-Jacques St., B Level North, Montreal, Quebec H2Y 1L6.

For all other shareholder inquiries, please contact Shareholder Services at the Corporate Secretary's Department, 21st Floor, 1 First Canadian Place, Toronto, Ontario M5X 1A1, E-mail: corp.secretary@bmo.com or please call (416) 867-6785 or fax (416) 867-6793.

Shareholder Dividend Reinvestment and Share Purchase Plan

The Shareholder Dividend Reinvestment and Share Purchase Plan provides a means for holders of record of common and preferred shares to reinvest cash dividends in common shares of the Bank without the payment of any commissions or service charges. Shareholders of the Bank may also purchase additional common shares of the Bank by making optional cash payments of up to $40,000 per fiscal year. Full details of the plan are available from The Trust Company of Bank of Montreal or Shareholder Services.

Direct Dividend Deposit

Shareholders may choose to have dividends deposited directly to an account in any financial institution in Canada which provides electronic funds transfer facilities.

Institutional Investors and Research Analysts

Institutional investors or research analysts who would like to obtain financial information should contact the Vice-President, Investor Relations, by writing to 18th Floor, 1 First Canadian Place, Toronto, Ontario M5X 1A1 or call (416) 867-6656 or fax (416) 867-4166 or visit our web site at www.bmo.com/investorrelations.

General Information

For general inquiries about company news and initiatives, or additional copies of the Annual Report, please contact the Corporate Marketing and Communications Department, Bank of Montreal Tower, 55 Bloor Street West, 4th Floor, Toronto, Ontario M4W 3N5.
(On peut obtenir sur demande un exemplaire en français.)

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, February 29, 2000 at 9:30 am (Eastern Standard Time) at the Hilton London, London, Ontario, Canada.

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